Ms Anne McGeachin
Project Manager
International Accounting Standards Board
30 Cannon Street
LONDON
EC4M 6XH

24 October 2003

Dear Ms McGeachin

ED 4 "DISPOSAL OF NON-CURRENT ASSETS AND PRESENTATION OF DISCONTINUED OPERATIONS"

I am writing with BT Group's views on the IASB's Exposure Draft 4 "Disposal of non-current assets and reporting of discontinued operations" (ED 4).

We feel that there are a number of significant issues with these proposals. Our greatest concern is with regard to the nature of the requirements and whether the proposals allow for meaningful, comparative figures to be arrived at in a practical, timely and cost effective manner. The remainder of this letter focuses on those specific areas of the proposals with which we foresee issues.

Definition of discontinued operations

The definition as a "component of an entity that either has been disposed of or is classified as held for sale" is considered to be inappropriate. This definition would result in many groups reporting discontinued operations every year and having to restate the prior year comparative figures which could be confusing to users of the accounts. A large organisation would normally expect a degree of churn of assets and businesses as part of its ongoing business operations and this normal churn should not be reflected by separately including the associated results as being from discontinued operations. We believe this would devalue the significance and relevance of separately reporting the results from discontinued operations. From the perspective of the preparer of accounts there is also an associated cost of restating the financial track record (generally for at least 5 years) to provide a meaningful trend.

We consider it more appropriate for the definition to be based on the component having a material effect on the nature and focus of an entity's operations. If it does not have a material effect then it is questionable what benefit the additional information would provide the user of the accounts.

Presenting discontinued operations

We believe that the requirement to disclose revenue, expenses, profit before tax, tax, profit after tax and the associated comparative figures on the face of the income statement to be overly prescriptive. We would consider it appropriate for the revenue and operating profit for material items to be disclosed on the face of the income statement and for there to be an option for the other elements to be included in the notes to the accounts.

Balance sheet presentation

The proposal requires the separate disclosure of assets held for sale by balance sheet caption on the face of the balance sheet. We believe that there should be an option allowing companies to disclose this in the notes to the accounts based on the materiality of such items.

Classification of non current assets as held for sale

We believe that the criteria set out in Appendix B are overly prescriptive and do not reflect a principles based approach. The classification as held for sale should be based on a demonstrable commitment to sell and a high probability of a sale taking place, reflected by a sale contract being entered into before the financial statements are signed.

In relation to a disposal group it may prejudice commercial negotiations to reflect the assets at fair value less costs to sell prior to a sale contract being negotiated. Accordingly there should either be an exemption where it is commercially sensitive or the classification as held for sale should be dependent on a sale contract being in place before the financial statements are signed.

Measurement of assets held for sale

We do not believe it is appropriate to cease charging depreciation where a fixed asset continues to be used in generating operating results for the business up to the date of sale. This treatment would result in a mismatch between the revenues and the costs associated with generating those revenues. The decision to sell an asset may be an indicator of impairment and hence may result in the need for an impairment test, the result of which would depend upon whether the asset remained in active use or was surplus to requirements. In the event that a fixed asset is surplus to requirements (redundant) the recognition of an impairment charge would result in there being no need to account for further depreciation.

We would be pleased to discuss our views with you if that would be helpful in addressing the practical issues associated with FRED 32.

Yours sincerely

JOHN WROE