AstraZeneca PLC

Q1. Classification of non-current assets held for sale

The Exposure Draft proposes that non-current assets should be classified as assets held for sale if specified criteria are met. (See paragraphs 4 and 5 and Appendix B.) Assets so classified may be required to be measured differently (see question 2) and presented separately (see question 7) from other non-current assets.
Does the separate classification of non-current assets held for sale enable additional information to be provided to users? Do you agree with the classification being made? If not, why not?

We agree with the proposal to classify non-current assets separately if specified criteria are met and believe that such a classification will provide better information for users. However, we do not agree with the scope of assets held for sale and believe it should be extended to assets retired from active use and held for sale. Such a definition would not, in our opinion, prevent recognition of discontinued operations and their associated assets and liabilities at an appropriate time.

We are concerned, however, that the provisions of paragraph 5 would allow sale transactions that are exchanges of similar assets to be measured at fair value. In our reply on the Improvements Project we expressed our belief that only exchanges of dissimilar assets should be measured at fair value and believe this principle should be extended to this guidance.

Q2. Measurement of non-current assets classified as held for sale

The Exposure Draft proposes that non-current assets classified as held for sale should be measured at the lower of carrying amount and fair value less costs to sell. It also proposes that non-current assets classified as held for sale should not be depreciated. (See paragraphs 8-16.)
Is this measurement basis appropriate for non-current assets classified as held for sale? If not, why not?

We do not agree with the proposal that assets held for sale should not be depreciated. It is not difficult to conceive of a situation where assets would be classified as held for sale (in the case of an agreed future divesture of a division) but were continued to be used - it such a case depreciation should not cease. If, however, our recommendation above suggestion a change to the scope of the proposed standard to cover non-current assets that are both retired from active use and held for sale was adopted, depreciation of those assets would cease.

Q3. Disposal groups

The Exposure Draft proposes that assets and liabilities that are to be disposed of together in a single transaction should be treated as a disposal group. The measurement basis proposed for non-current assets classified as held for sale would be applied to the group as a whole and any resulting impairment loss would reduce the carrying amount of the non-current assets in the disposal group. (See paragraph 3.)
Is this appropriate? If not, why not?

We do not agree with this proposal because we believe it is inconsistent with IAS36.

We are not clear whether goodwill, specifically excluded from the scope of the ED, is included within the scope if it is a part of a disposal group.

Q4. Newly acquired assets

The Exposure Draft proposes that newly acquired assets that meet the criteria to be classified as held for sale should be measured at fair value less costs to sell on initial recognition (see paragraph 9). It therefore proposes a consequential amendment to [draft] IFRS X Business Combinations (see paragraph C13 of Appendix C) so that non-current assets acquired as part of a business combination that meet the criteria to be classified as held for sale would be measured at fair value less costs to sell on initial recognition, rather than at fair value as currently required.

Is measurement at fair value less costs to sell on initial recognition appropriate? If not, why not?

We agree with this proposal, subject to the scope change discussed in questions 1 and 2 above.

Q5. Revalued assets

The Exposure Draft proposes that, for revalued assets, impairment losses arising from the write-down of assets (or disposal groups) to fair value less costs to sell (and subsequent gains) should be treated as revaluation decreases (and revaluation increases) in accordance with the standard under which the assets were revalued, except to the extent that the losses (or gains) arise from the recognition of costs to sell. Costs to sell and any subsequent changes in costs to sell are proposed to be recognised in the income statement. (See paragraphs B6-B8 of Appendix B.)

Is this appropriate? If not, why not?

We agree with the proposal although question whether the guidance in B8 is inconsistent with the requirement in paragraph 8 that assets held for sale are held at the lower of carrying amount and fair value.

Q6. Removal of the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale

The Exposure Draft proposes a consequential amendment to draft IAS 27 Consolidated and Separate Financial Statements to remove the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale. (See paragraph C3 of Appendix C and paragraphs BC39 and BC40 of the Basis for Conclusions.)

Is the removal of this exemption appropriate? If not, why not?

We agree with the proposal.

Q7. Presentation of non-current assets held for sale

The Exposure Draft proposes that non-current assets classified as held for sale, and assets and liabilities in a disposal group classified as held for sale, should be presented separately in the balance sheet. The assets and liabilities of a disposal group classified as held for sale should not be offset and presented as a single amount. (See paragraph 28.)

Is this presentation appropriate? If not, why not?

We agree with these proposals.

Q8. Classification as a discontinued operation

The Exposure Draft proposes that a discontinued operation should be a component of an entity that either has been disposed of, or is classified as held for sale, and:

(a) the operations and cash flows of that component have been, or will be, eliminated from the ongoing operations of the entity as a result of its disposal, and

(b) the entity will have no significant continuing involvement in that component after its disposal.

A component of an entity may be a cash-generating unit or any group of cash-generating units. (See paragraphs 22 and 23.)

These criteria could lead to relatively small units being classified as discontinued (subject to their materiality). Some entities may also regularly sell (and buy) operations that would be classified as discontinued operations, resulting in discontinued operations being presented every year. This, in turn, will lead to the comparatives being restated every year. Do you agree that this is appropriate? Would you prefer an amendment to the criteria, for example adding a requirement adapted from IAS 35 Discontinuing Operations that a discontinued operation shall be a separate major line of business or geographical area of operations, even though this would not converge with SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets. How important is convergence in your preference?

Are the other aspects of these criteria for classification as a discontinued operation (for example, the elimination of the operations and cash flows) appropriate? If not, what criteria would you suggest, and why?

We do not agree with the change in the definition of discontinued operations and believe that the existing IAS 35 definition is better. Although the ED4 definition imposes tighter criteria to be met before an operation can be classified as discontinued, we believe that the existing criteria (and the likely earlier recognition of operations as discontinued) provides better information for users of the financial statements. In addition, the proposed definition will result in smaller units being recognised as discontinued operations. Whilst this may provide useful information for users, it may also result in cumbersome and opaque disclosure, particularly since normal day-to-day rationalisation activities (for example, ceasing operations in a minor market) may be scoped as discontinued operations.

We do not believe that the benefits of convergence outweigh our concerns.

Q9. Presentation of a discontinued operation

The Exposure Draft proposes that the revenue, expenses, pre-tax profit or loss of discontinued operations and any related tax expense should be presented separately on the face of the income statement. (See paragraph 24.) An alternative approach would be to present a single amount, profit after tax, for discontinued operations on the face of the income statement with a breakdown into the above components given in the notes.

Which approach do you prefer, and why?

We believe that an option to present discontinued operations as a single after tax amount on the face of the income statement, with a detailed breakdown of the components in the notes, should be given. This would be consistent with the proposals under the reporting financial performance project. However, we do not believe that entities should be prevented from presenting the information on the face of the income statement.