20 October 2003

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Jenny Carter
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Dear Jenny

ASB Financial Reporting Exposure Draft (FRED) 32 – Disposal of Non-Current Assets and Presentation of Discontinued Operations.

The Federation is pleased to have the opportunity to comment on FRED 32 'Disposal of non-current assets and presentation of discontinued operations.'

The Federation represents nearly 1400 independent, not for profit housing providers. Our members include registered social landlords, housing associations, co-ops, trusts and transfer organisations. They manage more than 1.8 million homes provided for affordable rent, supported housing and low cost home ownership as well as delivering a wide range of community and regeneration services.

It is not uncommon for housing associations to have a planned programme of disposal of certain types of housing property. I am therefore attaching a detailed document responding to the relevant questions within the Consultation Paper. However, in particular, the Federation:

- Agree with the proposal to issue a new UK standard when the IASB issues its new IFRS, however.
- We need more consideration of factors unique to the housing sector eg. housing stock swaps, right to buy or right to acquire sales.
- We do not agree that assets held in sale, should not be depreciated.

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- We do not support a definition of discontinued operations that will result in relatively small units being classified as discontinued and which will lead to comparatives being restated every year.

Yours sincerely

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Wincy Lee
Policy Officer

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National
Housing
Federation

RESPONSE

FRED 32 – DISPOSAL OF NON-CURRENT ASSETS AND PRESENTATION OF DISCONTINUED OPERATIONS

ASB FINANCIAL REPORTING EXPOSURE DRAFT 32 - ISSUED JULY 2003

The National Housing Federation is pleased to have the opportunity to comment on the proposed FRED 32 '*Disposal of non-current assets*' and '*Presentations of discontinued operations*'.

The Federation represents nearly 1400 independent, not for profit housing providers. Our members include Registered Social Landlords, Housing Associations, Co-ops, Trusts and transfer organisations. They manage more than 1.8 million homes provided for affordable rent, Supported Housing and Low Cost Home Ownership as well as delivering a wide range of community and regeneration services.

OVERALL COMMENTS

The Federation supports the Government's objectives to improve the reporting of assets that are to be disposed of and discontinued operations. We are concerned with the impact on the housing associations, particularly in respect of the additional burden that the requirements of the Exposure Draft will bring to small associations.

DETAILED RESPONSE TO SPECIFIC QUESTIONS

ASB 1

Do you agree with the proposal to issue a new UK standard on disposal of non-current assets and discontinued operations when the IASB issues its new IFRS?

We agree with the proposal to issue a new UK standard when the IASB issues its new IFRS.

We note however that reporting entities applying the Financial Reporting Standard for Smaller Entities (FRSSE) are intended to be exempt from the new standard. The NHF consider that the proposals within the standard will create a disproportionate burden on smaller housing associations. We have

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commented on the specific areas which we consider to create that disproportionate burden in our responses to individual questions. An alternative however would be to provide within the Standard for individual SORP making bodies to define how the disclosure requirements of the Exposure Draft should be applied to individual sectors.

IASB 1

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?

There are a number of issues that are somewhat unique to the housing sector that we consider require consideration within the Standard. These are as follows:

- Within the social housing sector it is not uncommon for housing associations to have a planned programme of disposal of certain types of housing property. We consider that in such circumstances, where the criteria in Appendix B are met, it is appropriate to have a separate classification for such assets as this will provide additional information to users.
- It is also not uncommon for housing associations to enter into 'housing stock swaps' with one another. Again, we consider that where the criteria in Appendix B are met, it is appropriate to have a separate classification for such assets as this will provide additional information to users.
- Another instance where housing associations often dispose of non-current assets is in respect of right to buy or right to acquire sales. We consider that instances of right to buy sales are unlikely to meet the criteria within Appendix B as associations do not generally *actively market* right to buy sales. Instead, such sales arise because tenants have inherent rights to acquire the properties that they rent as a result of policies adopted either by local authorities (and inherited by associations) or as a result of the development activity of associations themselves. It would be helpful however if Appendix B considered specifically situations where service users or other third parties have rights to acquire non-current assets of an entity and the exercise of those rights is entirely dependent on action by the third party.

- A further consideration arises in respect of shared ownership assets. The SORP specifically requires such assets to be classified as fixed assets. Proceeds from the first tranche disposals are then credited against the cost of the shared ownership properties with proceeds from second and subsequent tranches being credited to the income and expenditure account. Shared ownership staircasing sales (where the tenant increases their interest in the property) may or may not take place and are outside the control of the housing association in the same way as right to buy sales. The SORP currently requires separate disclosure of shared ownership properties within fixed assets. We consider that the current accounting treatment adopted by the SORP is appropriate given that staircasing transactions are outside the control of the association and further consider that shared ownership properties do not meet the criteria of Appendix B. It would be helpful however if Appendix B considered the classification of shared ownership assets where third parties have the right to increase their interest in the asset.

IASB 2

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?

In our response to this question we have assumed that right to buy properties and shared ownership properties do not meet the definition of assets held for sale.

We consider that the measurement basis proposed for non-current assets classified for sale is appropriate, with two exceptions:

- We do not concur with the proposal not to depreciate assets classified as held for sale. We concur with the ASB view that where assets continue to be used by the entity they should continue to be depreciated.
- We consider however that further consideration should be given as to when property assets classified as held for sale should be treated as investment properties and hence valued at market value. As noted above, it is not uncommon for housing associations to adopt policies for a planned disposal with an element of stock. Where this is the case, we consider that there could be an argument for such properties

to be accounted for as investment properties and for any surpluses or deficits on disposal to be accounted for as part of operating profit.

IASB 3

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 value of the non-current assets in the disposal group. (See paragraph 3.)

Is this appropriate? If not, why not?

We consider that the treatment being proposed by the Standard is appropriate.

IASB 4

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 the treatment proposed in the context of acquisition accounting. We consider however that merger accounting may sometimes be a more appropriate method of accounting for business combinations involving public benefit entities.

Where merger accounting is applied, we do not consider it appropriate to have different valuation bases in respect of assets held for sale within the new single entity.

IASB 5
The Exposure Draft proposes that, for revalued assets, impairment losses arising from the writedown 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 B6B8 of Appendix B.)

Is this appropriate? If not, why not?

We do not consider that paragraph B6 makes it sufficiently clear that it is only losses that relate to the costs to sell should be recognised in the income statement. If paragraph B6 clarified this, we consider that the proposed treatment as outlined in IASB 5 is appropriate.

IASB 6
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 consider that the removal of the exemption is appropriate provided that such subsidiaries are measured and recognised in accordance with the proposals for non-current assets classified as held for sale.

IASB 7
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 consider that the proposed presentation is appropriate.

IASB 8

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:

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
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 reported 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 to be made, 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 support a definition of discontinued operations that will result in relatively small units being classified as discontinued and which will lead to comparatives being restated every year. We consider that the burden of separately identifying the amounts for the proposed disclosures relating to relatively small units outweighs the potential benefits that increased disclosures may provide to users of accounts. For associations that have planned disposal programmes, the proposals may result in discontinued operations being reported every year.

We consider that a requirement should be added either from IAS35 (that the operation should be a separate major line of business or geographical area of operation) or from FRS3 (that the disposal should have a material impact on the nature and focus of the entity's operations).

IASB 9 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 consider that the disclosures required by the Exposure Draft in respect of discontinued operations would create an undue burden on smaller housing associations. We would welcome the flexibility for individual SORP making bodies to vary the disclosure requirements for smaller entities within individual sectors.

Where disclosures are required, we consider that there should be flexibility as to whether they should be made in detail on the face of the income statement or whether the income statement disclosure should be supported by a detailed note. Entities should then be required to make full disclosure on the face of the income statement only in those cases where it is necessary to ensure a true and fair view is given.