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Sir David Tweedie
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Dear Sir David,

Re: Exposure Draft ED 4: Disposal of Non-Current Assets and Presentation of Discontinued Operations

FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) is pleased to submit its comments on the IASB Exposure Draft ED 4 on Disposal of Non-Current Assets and Presentation of Discontinued Operations.

FEE as a founding organisation of EFRAG has also contributed to the EFRAG commenting process by submitting our views on their preliminary comments. This response should be read in conjunction with the response submitted by the EFRAG. Where we are in agreement with the EFRAG comments we refer to these comments, where we are in disagreement our own views are put forward. In addition we raise some additional comments.

FEE is supportive of the Norwalk Agreement and the principle of convergence between IAS and US GAAP. High quality international solutions, either on the basis of convergence or otherwise, should be based on principles rather than on rules.

We are concerned that this exposure draft is in contrast to this idea because it is more or less an adoption of the requirements in US SFAS 144, *Accounting for the Impairment or Disposal of Long-lived Assets*. Also, the assumption that the most recent standards are necessarily of a higher quality (see Basis for Conclusions BC3) remains to be proved. Although we appreciate the intention of the project, we have doubts about the need for any new standard in this area. We are of the opinion that the current IAS 35 together with the proposed IAS 36 covering impairment of assets are of higher quality than this exposure draft. The case for withdrawal of IAS 35 is not convincing as full convergence is not achieved by ED 4 and IAS 35 has proved to work. FAS 144 is a recent standard and is still largely untested.

We are also concerned about the timing of the project. While we support the IASB's steps in the direction of convergence, we believe that this is a lower priority compared to ensuring a stable platform of standards for adoption in 2005. Companies should not be obliged to implement the changes in ED 4 in 2005 since there would be very little time to adjust systems given the IASB timetable and the European endorsement process. We suggest that the Board reconsiders this [draft] standard or defers it until after the 2005 deadline.

We have the following comments on the answers to the questions raised in the draft standard.

***Question 1*: 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 EFRAG and with the Board's proposal for a separate classification of assets to be sold because it provides useful information to users.

However, we also agree with EFRAG's comment that exchanges of non-current assets for other non-current assets should not be classified as part of the assets held for sale (paragraph 5). Given that such exchange will not bring future cash flows to the entity, it does not provide useful information to users.

We agree with EFRAG that the criteria for designation of Appendix B are too prescriptive, and rules-based and not principles-based. This is a major shortcoming of these proposals, as they do not raise the quality of current IAS standards. It would be more logical to refer to similar provisions as the existing restructuring provisions of IAS 37 which are proven to be effective.

Although Appendix B is an integral part of the standard, the more principles-based criteria included in it should be included in the core text of the standard, and the other requirements in the Implementation guidance.

***Question 2*: 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?

The Board's conclusion in BC 23 that the measurement requirements of the draft IFRS would not often involve a significant change from the requirements of existing (or proposed) IFRSs opens to question the necessity for such measurement changes. ED 4 should be limited to changes in presentation of non-current assets held for sale, to be incorporated in the existing standards.

It is conceptually wrong to cease depreciation/amortisation while assets are still in active use because of the basic principle of matching the cost of the assets with the benefits obtained from its use. There is otherwise scope for management abuse. In our comment letter on the Improvements project, we did not support the proposed changes in paragraph 46 of IAS 16 for an annual reassessment of the residual value. However, we accept that - if ED 4 is implemented - non-current assets classified as held for sale should not be depreciated so that the proposed IFRS is consistent with the proposed IAS 16. If the residual value is reassessed each year, the depreciation charge is no longer necessary.

We regard the existing and proposed requirements for impairment of assets as superior in the [draft] IAS 36 than in ED 4. The requirements of ED 4 are inconsistent with [draft] IAS 36 and we prefer the treatment of [draft] IAS 36. There is no need for new measurement rules on impairment as IAS 36.9 f) contains as indicator of impairment “plans… to dispose of an asset before the previously expected date”. We agree with EFRAG’s arguments in this respect.

<u>Question 3</u>: 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 agree with EFRAG’s comment and would refer to our answer to question 2. We find the proposals for measurement of disposal groups to be too complicated and confusing. They might differ from IAS 36 and produce misleading results. It is also unclear how segment reporting would be affected by these proposals

We prefer to remain with the existing IAS 36 and do not see the need for the introduction of a new terminology (‘disposal group’) as IAS 36 already provides the classification of cash-generating units within the entity.

<u>Question 4</u>: 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?

If the Board goes ahead with the proposed measurement concept of ED 4, we support the Board’s proposal to amend the draft IFRS on Business Combinations in cases where the buyer does not intend to use the asset before selling it because this ensures consistency in measurement. However, if the assets acquired are used until sold, the proposed measurement on initial recognition at fair value less costs to sell does not reflect the economic substance of the transaction. The assets will generate cash flows up to their disposal which in most cases will be more significant than costs to sell. Therefore we suggest measurement at fair value at acquisition is more appropriate in such circumstances.

It is not clear to us how paragraph 9 should be interpreted in the case of newly acquired assets outside a business combination. BC 30 does not provide any arguments other than that SFAS 144 has the same rule and only illustrates the case where the cost of the assets held for sale exceeds its fair value less costs to sell. If, for example, the cost of an asset acquired is lower than the fair value less costs to sell (in the case of an exchange of assets for example), paragraph 9 seems to imply that a gain would be recognised upfront. Such a treatment conflicts with the principle in paragraph 8, where measurement is at lower of cost or fair value less cost to sell, which is consistent with measurement on the historical cost basis. We believe this issue needs to be clarified.

***Question 5**: 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?

ED 4 appears to adopt a mixed model, drawing on both the concept of revaluation under existing IAS and the approach of US SFAS 144. We would like the Board to clarify the new rule introduced in B6, which states that any impairment loss that arises on reclassification of revalued assets shall be recognised in the income statement. In our view, it is in contradiction with paragraphs B7-B8, which are consistent with the requirements of [draft] IAS 36, i.e. subsequent impairment losses and gains should be treated as revaluation decreases and increases. In this respect, we agree with EFRAG's comments.

The proposed model in ED 4 results in difficult and confusing rules. We would prefer ED 4 to propose presentation principles only and to be in accordance with existing standards, avoiding the introduction of new, narrow recognition and measurement rules.

***Question 6**: 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 EFRAG and disagree with the Board's proposal. We believe that the exemption from consolidation for a subsidiary acquired and held exclusively with a view to resale provides better information to users to assess future cash flows, the key objective set out in BC 12.

We recommend that the exemption in draft IAS 27.13 be retained until this standard is revised under the current project of IASB on consolidation. As a result, the shares of the subsidiaries to be disposed of will be accounted for at fair value in accordance with IAS 39 and this will result in more relevant information for users.

***Question 7**: 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 EFRAG response and the IASB proposal.

<u>Question 8</u>: 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 agree with EFRAG's comments.

We believe that the criteria and the approach of IAS 35 ('major line of business' or 'geographical area of operations') are superior to the current proposals. In order to avoid frequent restatement of comparative financial information that will be costly and damage the credibility of published financial information, the threshold should not be decreased.

The move from discontinuing operation (IAS 35) to discontinued operation (ED 4) cannot be justified as an improvement for the benefit of users as it will defer the timely reporting of important information on operations to be discontinued.

<u>Question 9</u>: 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 prefer the alternative approach to present a single amount on the face of the income statement with a breakdown in the notes.

We would be pleased to discuss any aspect of this letter with you.

Yours sincerely,

David Devlin
President