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Dear Anne

We are writing in response to the invitation to comment on Exposure Draft 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations.* We have long advocated the harmonisation of Irish/UK accounting standards with their International equivalent and therefore in general welcome the proposals in these exposure drafts. There are a few issues we disagree with and these are noted in our responses to the specific questions asked.

Should you have any queries, please do not hesitate to contact me.

Yours sincerely,

Michael Kavanagh B.Comm CPA
Chairman
Financial Reporting Sub-Committee

INVITATION TO COMMENT

IASB1 The Exposure Draft proposes that non-current assets should be classified as assets held for sale f specified criteria are met. (See paragraph 4 and 5 and Appendix B). Assets so classified may be required to be measured differently (see question 2) and presented separately (see question7) 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?

Currently there is no definitive guidance in Irish/UK GAAP on this issue and we concur with the introduction of a standard that addresses the issue. In the past there has been inconsistencies with the classification of fixed and current assets by entities and we feel an accounting standard is necessary to deal with this area.

We further propose that the definitions in appendix A should be included in the main body of the accounting standard as paragraph 4. Further, the criteria for discontinued operations in appendix B1 should be included in the main body of the standard.

IASB2 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 are in agreement with the board's proposed measurement basis for non-current assets classified as held for sale; i.e. that they be measured at the lower of carrying amount and fair value less costs to sell.

However we think that any asset in use in the business should be depreciated, on the basis that it could be still in use in the business for up to one year and longer under the requirements of this exposure draft.

IASB3 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 broadly agree with the board's proposal to treat assets and liabilities disposed of together in a single transaction. However, we question the need for the introduction of this new concept of a "disposal group". Existing accounting standards deal with the classification of cash generating units within an entity and we would prefer this existing terminology to be used as the introduction of the new title may cause confusion.

IASB4 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 business combination that meet the criteria to be classified as held for sale would be measured as fair value less costs to sell on initial recognition, rather than at fair value as currently required.

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

We agree with this basis of measurement, which is consistent with generally accepted accounting standards.

IASB5 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 f Appendix B).

Is this appropriate? If not, why not?

We agree with the proposal by the board, as it is consistent with current accounting standards.

IASB6 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).

We agree with the removal of the exemption. This will require changes to our Companies Acts and the current ASB and IASB standard on this topic. To exempt a company from consolidation on this basis, would be inconsistent with the requirement of this ED and allow a group of assets within such subsidiaries to be treated differently to others.

IASB7 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?

The non-netting of assets and liabilities in the financial statements is necessary for transparency purposes and to comply with Irish Companies Act requirements. In an effort to prevent unnecessary confusion on the face of the balance sheet, we would suggest disclosure by way of note to the financial statements.

IASB8 The Exposure Draft proposes that a discontinued operation should be 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 paragraph 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 of 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?

This treatment would obviously result in many more items being classified as discontinued. We are not in favour of this. We prefer the criteria and the approach of IAS 35 ('major line of business' or 'geographical area of operations'). The proposed approach will lead to regular restatements of comparative amounts and potentially cause confusion. We understand that the Income Statement will be revised post the publication of an ED on reporting financial performance and this will include a discontinued column. However, we would prefer if the IASB postponed the proposed treatment of discontinued operations in ED 4 until after the IFRS on reporting financial performance is published.

We are fully supportive of convergence of IAS with Irish and US standards. However, this seems to be the adoption of US SFAS 144 and is not convergence, as such. We feel the proposals are not appropriate at this particular time.

IASB9 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 agree with the approach 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. The clarity of the Income Statement, as one of the primary statements within the financial statements, is of utmost importance from the point of view of ease of understanding. To prevent too much clutter on the Income Statement this treatment is the most appropriate.