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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Exposure Draft ED4: Disposal of Non-Current Assets and Discontinued Operations

Dear Sirs,

I would like to provide some comments on the Exposure Draft of the proposed IFRS dealing with the disposal of non-current assets and presentation of discontinued operations.
Please find attached our answers to the questions raised in the draft standard.
We appreciate the opportunity to raise comments on the Exposure Drafts and contribute to IASB's due process.

Yours sincerely,

Marta Soto

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

Question 1 – Classification of non-current assets held for sale

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?

Answer. We agree with the classification being made, not only for the purposes of providing information which will help users of financial statements assess the timing and amount of future cash flows, but also for the purposes of reducing differences between IFRSs and US GAAP (FASB Statement No.144). However, we do not support the inclusion of exchanges of non-current assets for other non-current assets as sale transactions (as per paragraph 5). We believe that this would mean that all exchanges of non-current assets for other non-current assets are arranged exclusively with a view to resale, which we do not find necessarily true. We consider that exchanges of similar assets with a similar use in the same line of business and which have a similar fair value, should not be considered as sale transactions for the purposes of this Exposure Draft 4, and therefore paragraph 5 should be amended accordingly.

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 the 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.

Is this measurement basis appropriate for non-current assets classified as held for sale? If not, why not?

Answer. We do not support the proposed measurement basis for non-current assets classified as held for sale. We believe that the depreciation of assets which, despite classification as held for sale, are still being used should only cease when such assets are held for sale *and* retired from active use. We believe that for consistency with the basic principle that the cost of an asset should be allocated over the period during which benefits are obtained from its use, the income statement should reflect as such those assets which are still being used in operations, although classified as held for sale.
Furthermore, paragraph 14 states that impairment losses of disposal groups should be allocated to those non-current assets within the disposal group which are covered by Exposure Draft 4 (which excludes goodwill). We believe that this requirement is inconsistent with IAS 36.

Question 3 – 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.

Is this appropriate? If not, why not?

Answer. We refer to our response to question 2 above.

Question 4 – 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. It therefore proposes a consequential amendment to (draft) IFRS X Business Combinations 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?

Answer. We consider appropriate the measurement basis for newly acquired assets.

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.

Is this appropriate? If not, why not?

Answer. We agree with the proposal, except for the requirement that subsequent increase in fair value shall be recognised *to its full extent* and treated as a revaluation increase in accordance with the standard under which the assets were revalued before their classification as held for sale. We believe that this requirement is not consistent with the principal measurement requirement that a non-current asset (or disposal group) held for sale shall be measured at the lower of its carrying amount and fair value less costs to sell. We therefore support that for those assets revalued under another IFRS before classification as held for sale, the revalued amount at the moment of that classification should be considered as its carrying value for the purpose of the principal measurement requirement (paragraph 8). Accordingly, any subsequent increase in fair value should be recognised but *not* in excess of any cumulative impairment loss previously recorded.

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.

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

Answer. We agree with the proposal. However, we consider that draft IAS 27 *Consolidated and Separate Financial Statements* should include a reference to IFRS X *Disposal of Non-Current Assets and Presentation of Discontinued Operations* to clarify the accounting treatment for subsidiaries acquired and held exclusively with a view to resale.

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.

Is this presentation appropriate? If not, why not?

Answer. We agree with the proposal.

Question 8 – 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.

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 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 and amendment to the criteria, for example adding a requirement adapted from IAS 35 "Discontinued 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 on your preference?

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

Answer. We find that the criteria in Exposure Draft 4 improve the current requirements under IAS 35 providing a better understanding of the impact of discontinued operations on the ongoing operations of the entity. Although under this draft relatively small units may be classified as discontinued, the other aspects of the criteria for classification (i.e. the elimination of the operations and cash flows and not having any significant continuing involvement in the operations after disposal), will reduce the number of operations that will be classified as discontinued and therefore the restatement of prior periods' revenues and expenses. We believe that the earlier reporting of intended discontinuation under existing IAS 35, along with the broadening of the classification of discontinued operations, might cause confusion for users of

financial statements due to constant restatement of comparatives. Hence, we consider appropriate the stricter classification triggers under this Exposure Draft.
Regarding the importance of convergence, we believe that convergence should secure the best standards, although the may diverge from existing IAS or SFAS.

Question 9 – Presentation of discontinued operations

The Exposure Draft proposes that the revenue, expenses, pre-tax profit or loss of discontinued operations and any related expense should be presented separately on the face of the income statement. 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?

Answer. We believe that the presentation of a single amount, profit after tax, on the face of the income statement with a breakdown given in the notes well meets the objective of disclosure of information to enable users of financial statements to assess the financial effects of discontinued operations.

Other comments on Exposure Draft 4 –

We find that Appendix B to Exposure Draft 4 should be part of the standard (rather than being separated in an Appendix) as it contains very relevant requirements.

We consider that the wording in paragraphs 2 and 3 is quite confusing as it specifically excludes goodwill from the scope but includes disposal groups, apparently including goodwill. We find it would be helpful to clarify this by explaining the different treatments and including illustrative examples.

We believe that any adjustment required when changes in a plan of sale occur should be presented in the same way (either in the notes or on the face of the financial statements) as the initial presentation of the impact recognised on the re-measurement to fair value less costs to sell of the assets or disposal groups (paragraph 24). Therefore, we consider that paragraph 19 should be amended accordingly.