LIBA

LONDON INVESTMENT BANKING ASSOCIATION
6 Frederick's Place, London, EC2R 8BT
Tel: 020-7796 3606 Fax: 020-7796 4345
Direct: 020-7367 5507 E-mail: ian.harrison@liba.org.uk

23 October 2003

Anne McGeachin
Project Manager
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

By email to: CommentLetters@iasb.org.uk

Dear Ms McGeachin,

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

I am writing on behalf of LIBA (the London Investment Banking Association) to comment on the above Exposure Draft. LIBA is, as you may know, the principal UK trade association for investment banks and securities houses; a full list of our members is attached.

While generally supportive of the Board's proposed approach, we do have a specific comment on one aspect of the Exposure Draft; this is set out below in the form of a response to Question 6 in the "Invitation to Comment" section of the Exposure Draft. Please note that we have not responded to the other questions.

Question 6 – Removal of the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale.

In our letter of 10 September 2002 commenting on the IASB's May 2002 Exposure Draft of Proposed Improvements to International Accounting Standards, we raised a number of concerns with both IAS 27 and IAS 28 relating to the exemption for consolidation where acquired subsidiaries or associates were held with a view to subsequent disposal, as well as to the use of a twelve month timeframe. For completeness, we have included in the Attachment the relevant excerpts from that letter.

It follows from the views expressed in that letter that we strongly believe that IAS 27 should retain an exemption from consolidation of a subsidiary where control is intended to be temporary, although we would support the deletion of a specific timeframe for the definition of "temporary".

As stated in our original letter, this issue is of particular concern for organisations with venture capital businesses, for unit trusts and other similar organisations, where we believe the requirement for such investments to be consolidated, rather than carried at fair value, "will result in the financial statements for these entities being less meaningful to users. The nature of these businesses is that investments are temporary and the objective return to the investor arises through the subsequent resale of the investment. The underlying assets and liabilities in the investments will differ in nature to those of the investor and are not part of the structure through which the investor group operates its business, or gets its intended return on its investment. Including these entities in consolidated accounts is misleading to users and will distort comparability year on year and/or between similar entities".

We also argued that the use of a fixed twelve month timeframe was in any circumstance inappropriate and was not helpful in determining the relevance of such information for users of accounts. We would therefore not support the continued inclusion of such a clause within IAS 28, particularly as it would now be inconsistent even with IAS 27.

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I hope that these comments are helpful. We would of course be very pleased to expand on any particular points if there are aspects which you find unclear, or where you would like further details of our views.

Yours sincerely

Ian Harrison

Ian Harrison
Director

LONDON INVESTMENT BANKING ASSOCIATION

LIST OF MEMBERS

ABN AMRO Bank N.V.
Arbuthnot Latham & Co., Limited
Arbuthnot Securities Limited
BNP Paribas
Barclays Capital
Bear, Stearns International Limited
Cazenove & Co. Ltd
CIBC World Markets Plc
Citigroup Inc.
Close Brothers Corporate Finance Ltd
Collins Stewart Limited
Commerzbank AG
Credit Suisse First Boston (Europe) Ltd
Daiwa Securities SMBC Europe Limited
Dawnay, Day & Co., Limited
Deutsche Bank AG London
Dresdner Kleinwort Wasserstein
Evolution Beeson Gregory Limited
Fortis GSLA Arbitrage Limited
Goldman Sachs International
Greenhill & Co. International LLP
Hawkpoint Partners Limited
HSBC Investment Bank plc
Instinet Europe Ltd
Investec Bank (UK) Limited
J.P. Morgan Securities Ltd
KBC Peel Hunt Ltd
Lazard
Lehman Brothers
Merrill Lynch Europe PLC
Mizuho International plc
Morgan Stanley International Ltd
Nomura International plc
N M Rothschild & Sons Limited
Robert W. Baird Group Limited
Singer & Friedlander Limited
3i Group plc
The Toronto-Dominion Bank
UBS Investment Bank
WestLB AG

23 October 2003

ATTACHMENT

Extracts from LIBA's letter of 10 September 2002 commenting on the IASB Exposure Draft of Proposed Improvements to IAS

(page and paragraph numbers are those of the original letter)

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IAS 27 ***Consolidated and Separate Financial Statements***

(pages 14-15)

3. Paragraph 13 states that "a subsidiary shall be excluded from consolidation when control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal within twelve months from acquisition". We believe that the key consideration is the *intention* to dispose of the investment and the addition of a fixed time criterion is both unnecessary and arbitrary. It may also cause companies such as venture capitalists and unit trusts to consolidate certain companies but not others, where the underlying assets are incidental to the investment and completely unrelated to the core businesses of these reporting entities. The accounting treatment for these entities is discussed further below.

4. Paragraph 13A states that "A subsidiary is not excluded from consolidation simply because the investor is a venture capital organisation, mutual fund or similar entity". We believe that this clause, taken with the other criteria in paragraphs 13 and 14, will result in a requirement for these types of businesses to consolidate some of their investments, rather than carry these investments at fair value. We strongly believe that this will result in the financial statements for these entities being less meaningful to users. The nature of these businesses is that investments are temporary and the objective return to the investor arises through the subsequent resale of the investment. The underlying assets and liabilities in the investments will differ in nature to those of the investor and are not part of the structure through which the investor group operates its business, or gets its intended return on its investment. Including these entities in consolidated accounts is misleading to users and will distort comparability year on year and/or between similar entities. We agree with the IASB (in the IAS 28 Basis for Conclusions, paragraph A4), that "fair value measurement for these entities produces more relevant information". We also note that the IASB concluded (in paragraph A6) that fair value was an appropriate basis for investments in associates "by venture capital organisations … and similar entities … when such measurement is well-established practice in the industries involved". It is inconsistent to change a well-established industry practice only for certain types of investment. Finally, we note that the Joint Working Group of Standard Setters, in determining an appropriate valuation basis for private equity investments, specifically excluded "venture capital investment enterprises" from carrying such investments at anything other than fair value (December 2000 consultation paper - paragraph 122).

If, however, the Board decides not to amend the proposals to permit investments made by venture capital organisations, mutual funds, unit trusts and similar entities to be carried at fair value, we urge that it recognise the practical difficulties that firms may encounter in sourcing the necessary historical information, and that application for these entities be required on a prospective basis. Since there was no expectation that consolidation would ever be required for these investments, certain historical information may not be available, or available only at significant cost and effort. It is also unclear how useful the information produced by restating prior periods for the results of investments already disposed of would be to a financial statement user. We therefore ask that, if the Board rejects our call for such investments to be carried at fair value, then adoption for the types of entities referenced above should be made on a prospective basis, rather than by restating previous periods, and that the difference between the carrying amounts before and after the change in accounting policy be recognised as an adjustment of the balance of retained earnings at the beginning of the financial year in which this change is made.

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IAS 28 ***Accounting for Investments in Associates***

(page 17)

2. Paragraph 8 states that "an investment in an associate shall be accounted for under the equity method except when the investment is acquired and held exclusively with a view to its subsequent disposal within twelve months from acquisition". We believe, consistent with our comments on proposed revised IAS 27 in Appendix 4, that the use of a fixed twelve-month timeframe is not helpful in determining the relevance of such information for users and that the amendment to 8(a) should not be made."

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