REDOVISNINGSRÅDET

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We appreciate the opportunity to respond to ED 4 *Disposal of Non-Current Assets and Presentation of Discontinued Operations*. This letter represents the views of the Swedish Financial Accounting Standards Council (SFASC).

SFASC strongly believes that convergence is important to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards. In this case full convergence is however not achieved. SFASC is of the opinion that IAS 35 is a workable and useful standard. The proposed standard does in our opinion not provide more useful information than the current IAS 35. Furthermore, no conclusion regarding the presentation of discontinued operations in the income statement has been reached in ED 4. Consequently, there is currently no need to replace IAS 35 with a standard based on ED 4. However, should the Board continue with the proposed approach in ED 4, these are our comments to the questions posed in the exposure draft.

SFASC is concerned about the IASB timetable and the little time left to implement the standards that will be mandatory from 2005. In attempting to complete both the 2005 standards and the short-term convergence programme by 2005 IASB runs the risk of producing sub-optimal solutions for both. We note from the timetable that a number of the 2005 standards will not be published until March 2004. In order to give the preparers sufficient time to implement IFRS with comparative information we urge IASB to reconsider its timetable. We believe it would be better to accelerate those standards where serious comparability issues arise and to delay those, for example ED 4, that are not critical to the development of a high quality set of 2005 standards.

Q1. 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?

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Yes. However we believe that the introduction of the newly defined concepts of "disposal group" and "component of an entity" are confusing in relation to the existing defined concept of "cash generating unit". Existing IFRS already split up a reporting entity into different levels (e.g. a cash generating unit (IAS 36), a segment (IAS 14 Segment Reporting)) and we are not convinced of the need for a new standard introducing new sublevels of a reporting entity.

Q2. 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?

We believe that it is wrong to cease depreciation/amortisation while assets are still in active use. In particular, we believe that the current proposal leads to inappropriate accounting when an entity decides to dispose of a division and meets the held for sale criteria. Even if the assets of such a held for sale division are being used until divesture this would not be reflected as such in the income statement.

Q3. 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?

ED 4 applies to all non-current assets except for, i.a. goodwill. In p. 11, however, it is stated goodwill, if any, also should be included in the disposal group. We believe that a clarification in this respect would be appropriate.

Q4. 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

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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 Board´s proposal.

Q5. **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?

According to ED 4, some value changes will be accounted for in equity, while others would be recognized in the income statement, depending on the relevant standard. Costs to sell and subsequent changes in such costs would always be recognized in the income statement.

We would prefer the value changes relating to the assets and the selling costs to be accounted for in the same way. We do not find the distinction that is made in ED 4 useful. What is important to the seller is if there is a change in the net selling price. Also, the selling cost and the fair value of the asset may related to each other.

Q6. **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?

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We agree with the Board´s proposal.

Q7. **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 the Board´s proposal.

Q8. **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?

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As stated in Q1, we believe that the information content of components defined in accordance with IAS 35 is very different from that of smaller components.

Our experience with IAS 35 is that it is a workable standard that is helpful to users and not overly burdensome to the preparers. Extending the scope to any operation that an entity plans to sell will, in our opinion, be confusing as it could lead to the history of the entity being rewritten every year. We believe that acquisitions and sales of smaller components are regular events for any entity that should not be excluded when making forecasts. Therefore, we see no compelling arguments to change except for converging to FAS 144.

Thus, we would strongly support an amendment to the criteria adding a requirement that a discontinued operation shall be a major line of business or geographical area of operations. We do not see how accounting for smaller discontinued operations retrospectively provides the user with any material additional information. However, we would not object if there was a requirement to provide the same kind of information for smaller segments as for single assets. In our opinion smaller components and single assets have much more in common than smaller and larger components.

Q9. **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 believe that the presentation of a single amount, profit after tax, for discontinued operations on the face of the income statement with a breakdown in the notes would best meet the objectives of comparability, understandability and relevance without losing valuable detailed information.

In the Basis for Conclusion, p. 55, it is stated that the Board is considering the presentation of discontinued operations in the income statement and that it does not wish to prejudge the outcome of that project at this moment. We do not agree that there is a need to wait for this project (i.e. the project on comprehensive income) to be completed before making the change to how a discontinued operation should be presented in the income statement as it is difficult to predict when that project will be finalized.

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The Swedish Financial Accounting Standards Council

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