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Dear Sirs

ED 4, Disposal of Non-current Assets and Presentation of Discontinued Operations

We welcome the opportunity to provide comments on the Exposure Draft on behalf of the Danish Institute of State Authorised Public Accountants (FSR).

FSR's Accounting Standards Committee has reviewed the ED and we summarize our comments below. Our comments have been presented for the Danish Accounting Advisory Panel which represents users and prepares of financial statements.

General comments

Overall, we are supportive of the Board's efforts to bring about a better reporting model for assets held for disposals and for the presentation of discontinued operations.

We agree that convergence is an important aim with respect of developing global accounting standards. However, convergence should only be towards the highest quality solutions.

We do not find that very detailed rule-based standards like US GAAP necessarily improve the quality of financial reporting – a view which is shared by representatives from Danish business organisations in the Danish Accounting Advisory Panel. With respect of ED 4 we are concerned that the restrictive criteria with respect of classifying assets as held for disposal could make enterprises deliberately opt out such a classification by not complying with all individual requirements set out in Appendix B. On the other hand, if the classification was based on principles, enterprises could not as easy deliberately opt out the required separate classification.

Further, we are concerned by the fact that the IASB undertakes revisions to measurement principles in IFRS before any larger discussion on the measurement objectives in financial statements has taken place.

We find that retention of the measurement principles set out in the existing individual Standards would lead to more appropriate results, cf. our answer to Q2.

While we agree with the principle of separate classification, we are concerned by the fact that the standard will require all non-current assets classified as held for sale must be presented separately from other assets in the balance sheet. This could lead to cumbersome requirements for preparers. At the same time we do not find that disclosure of non-significant amounts of non-current assets held for sale will benefit users. In this matter the burden placed on the preparers must be balanced with the users' limited interest.

We notice that the draft standard requires different "triggers" for presenting non-current assets as assets held for disposal and operations and cash flows from discontinued operations respectively. This is opposite to the present concept in IAS 35, which uses the same "triggers" in all statements (income statement, balance sheet, cash flow statement). Therefore, the concept used in IAS 35 means that return on assets on continued operations makes sense. We therefore recommend that the Board reconsiders the different classification in the balance sheet and in the income and cash-flow statements.

We do not find that the presentation requirements as drafted in the ED are clear, and we find that an illustrative example is essential for understanding the requirements. Therefore, the final standard should include an example presenting the balance sheet/income statement/cash flow statement requirements of the standard the same way as alternative ways of presenting the figures under IAS 35 are illustrated in appendix A of this standard.

We believe that the Standard as currently drafted is unnecessarily complex and unclear compared to existing IAS Standards. In ED 4, the reader must make many back and forth between various paragraphs in the Exposure Draft as well as with Appendix B. We suggest that the key requirements of Appendix B be part of the Standard.

Appendix 1 sets out our answers to the questions raised in the draft Standard.

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If you have questions to the above, please do not hesitate to contact us.

Yours sincerely

Eskild Nørregaard Jakobsen
Chairman of FSR's Accounting
Standards Committee

Ole Steen Jørgensen
Head of Department

Appendix 1

ED 4, Disposal of Non-current Assets and Presentation of Discontinued Operations

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?

We agree that a separate classification of non-current assets held for sale will provide useful information to users.

While we agree to a separate classification of non-current assets held for sale we find that clarification is needed to determine whether ED 4 should be read to require a separation into three different line items on the face of the balance sheet being i) assets held for sale, ii) assets of disposal groups held for sale and iii) assets of components held for sale and even iv) associates held exclusively for sale. One way to accomplish this would be to include illustrative examples in the final Standard.

Referring to our comment letter dated 17 September 2002 re. improvements to IAS 16 we do not support the proposed treatment of exchange of similar assets. Therefore, we do not agree that such "assets held for exchange" should be classified as non-current assets held for sale.

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?

In our opinion assets still in use should continue to be depreciated since non-depreciation of assets seems to be inconsistent with IASB Framework. Furthermore, we find that the existing rules on impairment in IAS 36 will in all material respects result in the same initial value as proposed by ED 4. Therefore, in our opinion, the introduction of a new measurement basis will only create unnecessary complexity.

Referring to our comment letter dated 17 September 2002 re. improvements to IAS 16 we do not support the proposal that residual value could be increased unless the asset is revaluated. We therefore do not agree with the reasoning included in BC 22 for discontinuance of depreciation.

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?

We agree that assets to be disposed of together in a single transaction should be measured on a portfolio basis. Referring to our answer in Q2 we recommend that this be accomplished by making reference to the impairment rules for cash generating units in IAS 36.

However we are concerned that the level of aggregation is different from that of cash generating units in IAS 36. This leads to confusion and can be illustrated from the fact that goodwill is scoped out of ED 4 in para 2(a) but seems to be scoped in again in para 11.

We do not find it logical that an impairment loss of a disposal group should always be charged to the assets. In such a situation we find that the liabilities should be restated at fair value.

ED 4 does not seem to take into consideration measurement issues in a situation where a single non-current asset held for sale is linked to liability, e.g. property with mortgage loans or financial leased assets with related leasing obligations. In this situation we find that the single asset and liability should be treated as a disposal group.

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 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.

However, we propose that the final standard clarify what should happen if the criteria for classification as non-current asset held for sale are subsequently not met. In our opinion the rules for adjustments after the initial accounting is complete in ED 3 para 62-63 should apply.

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?

In our view it is confusing to first introduce a new measurement basis (fair value less cost to sell) and then partly go back to measurement principles prescribed by other standards (revalued, impaired). We find that a consistent approach would be to treat all non-current assets held for sale in the same way regardless of treatment prior to the reclassification as non-current assets held for sale.

However, if the IASB decides to retain the existing measurement basis for non-current assets held for sale, the consequence would be that revalued assets should be treated as proposed in ED 4.

As mentioned in our introduction we believe that the Standard as currently drafted is unessecary complex and unclear compared to existing IAS Standards.

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?

We agree.

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. However, as mentioned in the introduction we are concerned by the fact that the differing classification criteria of non-current assets held for sale proposed by ED 4 will result in a “missing link” between the balance sheet and the income statement/cash flow statement.

In addition, current wording of para’s 24 and 28 would seem to imply that restatement is required in respect of the income statement and cash flow statement (para 24 – “An entity shall disclose *for all periods presented* …”) whereas no restatement is required in the balance sheet (“para 28 – An entity shall present …”).

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?

We do not agree.

While we support the proposal to separate significant discontinued operations from continuing operations we question whether it will benefit users that relatively small units compared to those covered by IAS 35 be classified as discontinued operations.

We prefer to keep the existing approach used in IAS 35. If the Board does not find this appropriate, we would suggest that the final Standard should include thresholds similar to those included in IAS 14 with the view of limiting the extent to which operations must be classified as discontinued.

As mentioned in the introduction we are concerned by the fact that the differing classification criteria of non-current assets held for sale proposed by ED 4 will result in a "missing link" between the balance sheet and the income statement/cash flow statement.

We support the convergence of accounting standards around the world, but only when convergence is towards the highest quality solutions. In order to determine whether ED 4 accomplishes this goal we are missing the compelling arguments (apart from convergence) to illustrate that ED 4 in all respects is superior to IAS 35.

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 agree to a single amount presentation as the only allowed presentation. This would avoid potential problems re. classification of gains and losses on disposal (i.e. should gains be classified as revenue from discontinued operations and losses be classified as expenses from discontinued operations?).

While the project on Reporting Financial Performance may resolve the issue we would mention in this comment letter that the proposal to present a single amount or aggregated figures would seem to be in conflict with the IAS 1 requirement to present total revenue etc. on the face of the income statement.

Other comments
We do not find it clear whether the initial one-year period could be "rolled-over" more than once when the circumstances in Appendix B2(c) occur.

The first sentence of Para 22 seems to be superfluous as it is simply repeats the definition of a component of an entity included in appendix A. However, the last sentence seems to add something to the definition by saying that a component of an entity may be a cash-generating unit or a group of cash-generating units. We assume that the purpose is to make it clear that the smallest component of an entity is a cash-generating unit. This fact should appear clearly from the definition.