DCP/CRGIED4RESP

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

28 October 2003

Dear Sir,

Disposal of Non-current Assets and Presentation of Discontinued Operations (ED4)

We have reviewed the above exposure draft and would make the following comments:

Q1: In general we agree that the separate classification of non-current assets held for sale would enable additional information to be provided to users and that this classification should be made. However, we would qualify this agreement by the following:

- Paragraph B2(a)(i) uses the word “cannot” but “would not” is more appropriate. Many things can be done but they would not always make economic sense and are therefore not realistic options.
- On a more general level we are concerned by the interaction of B3 and B2. In acquisitions there are sometimes regulatory requirements which relate to the disposal of part of the acquired business, This part should be treated as held for sale but it may be more than 12 months before the regulatory requirements are finalised and there is a “firm purchase commitment”. In any event any purchase commitment prior to regulatory clearance would be subject to such clearance.
- In situations such as the preceding paragraph, it may be that there is great uncertainty over the fair value of the assets held for sale given the regulatory supervision and possibilities of “forced” sales of assets. Also any value placed on these assets in external reporting may be not only highly uncertain but also commercially prejudicial to the seller. This latter point may also be of wider application than just where there are regulatory constraints but does not seem to be addressed in ED4.

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- As we noted in our submission on the improvements project for IAS16, we do not agree that all exchanges of items of property, plant and equipment should be measured at fair value and had a strong preference for the exclusion of "similar items" from this requirement. Consequently we cannot agree with the second sentence of paragraph 5 unless it is qualified to meet this point and, in any event, we are not sure that such a sentence is needed.

Q2: Whilst we agree 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, we do not agree that such assets should not be depreciated if they are still being actively used in the business. We support the counter-argument, set out in paragraph BC21 of the Basis for Conclusions, that cessation of depreciation is inconsistent with the basic principle that the cost of an asset should be allocated over the period during which benefits are obtained from its use.

We also believe that some more clarity is needed between the interaction of IAS36 (revised) and ED4, given (i) the former refers to "plans to discontinue" as evidence of impairment and (ii) the treatment of impairment losses in IAS36 compared to the consequences of paragraphs 11 and 14 in ED4. We do not see paragraph BC29 provides any justification for a different approach.

Q3 See our response on Q2 above. We also find the scoping out of goodwill in paragraph 2, but then scoping in disposal groups (with the references in paragraphs 3 and 11) to be somewhat confusing. We would suggest that in the final standard, this is more clearly explained.

Q4: Subject to the relevant points in the answers to Q1 above, we agree that it is appropriate to measure newly acquired assets that meet the criteria to be classified as held for sale at fair value less costs to sell on initial recognition.

Q5: We are not convinced that it is appropriate to make an exception where the impairment losses (or subsequent gains) arise from the recognition of costs to sell. We would prefer not to make any such distinction, on the grounds that the valuation basis is "fair value less costs to sell" in ED4 rather than simply "fair value". In other words the costs to sell form an integral part of arriving at the valuation amount and thus should not be separated in allocating any resulting loss.

Q6: We do not agree that it is appropriate to make a consequential amendment to draft IAS27 to remove the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale.

We believe there is a difference between a subsidiary acquired with the intent to sell disposal groups or assets which have been part of the consolidated Group results in the past. For the latter we can see the benefit to users in providing information on the assets or operations included in the Group results in the past and which will be removed on disposal. However, for the former the key issue is what will be the expected net proceeds from the disposal, which should be the basis for fair valuing this part of the business acquired and its carrying value as a single item in the balance sheet. To require temporary consolidation, with disclosure of all the consequent details, is an unnecessary requirement for which we can see no benefit.

Q7: We agree 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. We also agree that the assets and liabilities of a disposal group classified as held for sale should not be offset and presented as a single group.

We also agree with the option to disclose the major classes of assets and liabilities on the face of the balance sheet or in the notes. The inclusion of detail in the notes maintains some clarity in what are becoming increasingly detailed primary statements.

Q8: We disagree with the proposals in FD4. The suggested criteria in ED4 will lead to more transactions resulting in discontinued operations and being reported separately, with the prospect of many entities reporting such operations frequently (and thus having to amend comparatives regularly). We believe this result would

- lead to many items being treated outside of continuing activities even when the business had not changed significantly.
- be confusing to users and of little help in terms of predictive value.
- be burdensome on preparers with numerous restatements.
- muddy the clarity of period on period reporting.

In paragraph BC47 the IASB quote one example which might occur with the problems that may result. However, in practice, such transactions as this are likely to be only a small part of the number of disposal transactions “caught” by ED4 and, in any event in these cases, companies would be asked for the information by interested users if they did not supply some key data. It is inappropriate to use this one type of transaction to justify the much wider application envisaged by ED4. The criteria should be based on significant changes and therefore we support retention of the approach in IAS35.

Q9: On balance we believe that the alternative approach (to present a single, after-tax amount for discontinued operations on the face of the income statement with a breakdown into the necessary components given in the notes) would be preferable. We would hope that information shown on the face of the income statement is kept to a reasonable level to aid clarity and understanding, which we believe the suggested approach in ED4 does not do.

Other: Given the likely date for the issue of a standard based on ED4 and the number of companies moving to IFRS in 2005, the implications for IFRS1 need to be considered i.e. will first time applications of IFRS be exempt from retrospective application.

While we welcome the convergence of accounting standards, including to US GAAP, as noted above there are areas such as Q8 where we believe ED4 is not converging international standards to higher quality standards.

We also welcome the recognition that there needs to be some reflection of management intent in accounting standards, if such standards are to better reflect the operations of a business. However, we would be concerned if this was only applied alongside a battery of detailed rules with the aim of preventing abuse taking precedence over all else, as we see appearing in Appendix B of ED4. Notwithstanding this comment, we will be interested to see whether the IASB applies management intent consistently in looking at various topics.

We hope that you find our comments useful and thank you for giving us the opportunity to comment on these proposals.

Yours faithfully,

D C POTTER
Chairman, C.I.A.S.