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Our ref: Tech/APU/ARW

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Dear Jenny

FRED 32: DISPOSAL OF NON-CURRENT ASSETS AND PRESENTATION OF DISCONTINUED OPERATIONS

I am writing to give PKF's views on FRED 32.

General comments

In general we support convergence towards internationally recognised and accepted accounting standards but we feel that the ASB should lobby hard for the best possible standards and discourage the IASB from making changes at present, when all effort should be going into improving existing standards in readiness for 2005.

Specific comments

The references in the comments below are to the questions asked in the FRED. Where we have made no comments, we either agree with the proposals or have no strong views on the issues raised.

ASB 1 Do you agree with the proposal to issue a new UK standard on disposal of non-current assets and discontinued operations when the IASB issues its new IFRS?

If the IASB does issue an IFRS on this topic, we believe the ASB should issue a comparable UK FRS, but only for the purpose of ensuring continuing convergence between UK GAAP and IFRS. We strongly believe, though, that the ASB should lobby the IASB to postpone the whole project.

IASB 2 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. Is this

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

We believe it is wrong not to depreciate non-current assets held for sale, if they are still in use. This is because the economic benefit derived from those assets continues to be consumed, and so, in our view, a profit and loss account charge should still be made.

We have a further concern in that it gives management the opportunity to manipulate depreciation figures by placing non-current assets into the 'held for sale' category then reverse the decision the next year, thereby losing a year's depreciation of those assets.

IASB 6 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?

No. The current exemption recognises the fact that such subsidiaries are not held to contribute to group operations.

IASB 8 The Exposure Draft proposes that a discontinued operation should be a [defined] component of an entity. ... These criteria could lead to relatively small units being classified as discontinued (subject to their materiality). Do you agree that this is appropriate? Would you prefer an amendment to the criteria to be made? ... 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?

Yes, we agree that it is appropriate to classify relatively small units as discontinued, if they are material.

If you would like further information or to discuss our comments, please contact me.

Yours sincerely

Tony Upson

A P Upson
Director of Assurance and Advisory Services