CIMA

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

29 September 2003

Dear Ms McGeachin

EXPOSURE DRAFT: ***ED 4 Disposal of Non-Current Assets and Presentation of Discontinued Operations***

Thank you for giving the Chartered Institute of Management Accountants the opportunity to comment on this standard. The Chartered Institute of Management Accountants (CIMA) is a global professional body specialising in management accounting. CIMA represents over 77,000 students and 60,000 members in 155 countries.

The responses to your specific questions are attached below. There are also general points that we think it important to make. Broadly, CIMA agrees with the proposals, but with the following reservations.

Firstly, we feel that using management commitment to a plan to sell as the criterion for classifying an asset or disposal group as non-current, is open to potential abuse. An asset or group of assets could be classified as non-current, (and therefore non-depreciable) and in the next period, this classification could be reversed, based on an argument that management's plans to sell these assets have changed.

Secondly, we believe that assets that are in use should be depreciated. Please see our response to IASB Q2.

Thirdly, we are concerned about the requirement to disclose separately in the balance sheet, non-current assets, and assets and liabilities in a disposal group classified as held for sale. We feel that this requirement will increase the complexity of the balance sheet unduly. It is difficult to tell exactly how the proposed standard envisages the materiality of the various disclosures should be identified. Possibly a more explicit and comprehensive discussion of how materiality should be defined in relation to the required disclosures would allay some of this concern.

Finally, we note that although IASB make good use of examples in the supplementary guidance *Draft Illustrative Examples*, it does not take the opportunity to illustrate tabular presentations, especially of balance sheet information. We would urge the Board to do this more often, since this can often clarify the meaning of a proposed standard.

This response was also sent in hard copy.

Yours sincerely

Louise N Ross

Louise Ross Secretary of Financial Reporting Development Group Direct Tel: 0208 683 9371 Direct Fax: 0208 683 9371 E-mail: Louise.Ross@cimaglobal.com	Jim Metcalf Chairman of Financial Reporting Development Group 01732 740554 0845 280 2323 jim@jimmetcalf.co.uk

IASB Q1

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?

CIMA consider that the Exposure Draft standardises practices that used to vary, and is therefore to be welcomed. We are concerned by the classification according to management intent, and also consider there is a danger of excessively detailed disclosure if materiality is not sensibly defined (see below).

IASB Q2

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?

CIMA do not support the proposal that non-current assets for sale should not be depreciated. It would be better to write the value of the asset down to estimated disposal value at the time of sale plus a reasonable estimate of the value of the anticipated use, if this is lower than the carrying amount. The value of anticipated use could then be depreciated as the asset was used.

IASB Q3

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 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 value of the non-current assets in the disposal group. (See paragraph 3.)

Is this appropriate? If not, why not?

CIMA agree this is sensible, as it avoids lots of individual calculations.

IASB Q4

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?

CIMA agree with the proposals.

IASB Q5
The Exposure Draft proposes that, for revalued assets, impairment losses arising from the writedown 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 B6B8 of Appendix B.)

Is this appropriate? If not, why not?

CIMA agree with this proposal, which represents a convergence to the IAS rather than US approach.

IASB Q6
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?

The proposal will mean that additional, and arguably unproductive, work will need to be done to analyse these subsidiaries to provide full balance sheet disclosure of assets and liabilities. CIMA can accept this proposal in the interests of convergence and consistency, but ask the IASB to keep this issue under review with the FASB.

IASB Q7
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?

Presenting disposal groups' result in a column, and introducing a non-current assets category are both acceptable provided the standard permits the concept of reporting only material items to be sensibly applied. If this is not so, CIMA are concerned this requirement will unduly increase the complexity of the balance sheet.

We would wish to avoid the disclosure of many transactions of relatively small amounts, even some negative amounts when the costs of disposal exceed proceeds of sale. We consider that the standard should discuss the application of materiality considerations. For example what should happen when the residual asset would not be material, but the write-down would be.

We recommend that the exposure draft include some examples of how such transactions should be presented in the balance sheet, as the guidance alone does not make it easy for a user to envisage the disclosure requirements.

IASB Q8
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 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 reported every year. This, in turn, will lead to the comparatives being restated 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 to be made, 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 of Disposal of Long-Lived Assets. *How important is convergence in your preference?*

CIMA would support the proposals in the interests of convergence, but we do have some concerns about the detail. We would like the guidance to encourage users to consider the materiality of transactions in the context of the group, rather than in absolute terms.

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?

CIMA consider the other aspects appropriate.

IASB Q9
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?

CIMA would suggest a third approach, in which the items are separate until the operating profit is struck, but not thereafter. Allocations of interest and tax are often essentially subjective in a group situation, and convey little useful information to shareholders.