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Ms. Anne McGeachin
Project Manager
International Accounting Standards Boards
30 Cannon Street, London EC4M 6XH
United Kingdom

Dear Ms. Anne McGeachin:

I am happy to inform you that the International Accounting Standards Review Committee (IASRC) of the Korea Accounting Standards Board (KASB) has held a successful meeting and has finalized on its comments to the IFRS ED 4 Disposal of non-current assets and presentation of discontinued operations. I would appreciate your including our comments in your summary of analysis that will be presented to the IASB.

The enclosed comments are those of the IASRC and do not represent an official position of the KASB. The official position of the KASB is determined only after extensive due process and deliberation, to which this letter has not been subjected.

Please do not hesitate to contact us if you have any inquiries regarding our comments; you may forward your inquiries either to Mr. Jae-ho Kim, KASB Research Staff (jhkim@kasb.or.kr) or Mr. Kyoung-chun Yu, KASB Research Staff (yukc@kasb.or.kr).

Best regards,

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Dr. Kyung-ho Kim
Chairman, International Accounting Standards Review Committee
Vice Chairman, Korea Accounting Standards Board

Encl: IASRC comments on IFRS ED 4 Disposal of non-current assets and presentation of discontinued operations

KASB IASRC Comments on ED 4
Disposal of non-current assets and
Presentation of discontinued operations

Question 1 – 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?

The IASRC believes that the separate classification of non-current assets held for sale enables additional information to be provided to users, and agrees with the classification being made.

Question 2 – 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?

The IASRC agrees with the proposed measurement basis for non-current assets classified as held for sale, except for the following minority opinion.

If an asset is still being used in operations, although classified as held for sale, it should be depreciated over the period during which benefits are obtained from its use.

Question 3 – 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?

The IASRC consents that the proposed measurement basis for non-current assets classified as held for sale should be applied to the disposal group as a whole.

Question 4 – 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?

The IASRC consents that newly acquired assets should be measured at fair value less costs to sell on initial recognition, except for the following minority opinion.

Because the measurement of assets on initial recognition should be consistent with each of the relevant individual standards, certain assets should be measured at its cost on initial recognition.

Question 5 – 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?

The IASRC does not agree with the proposal. For it does not seem to provide relevant information to separate the change in costs to sell from the change in fair value and account for two reasons causing change in fair value less costs to sell differently.

Question 6 – 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?

The IASRC doubts on whether the removal of this exemption enables faithful presentation in consolidated financial statements.

If a newly acquired subsidiary is held exclusively with a view to resale, and assets and disposal groups within the subsidiary meet the criteria to be classified as held for sale, the subsidiary might be classified as a discontinued operation as soon as it is acquired.

The subsidiary is likely to be "operations and cash flows that can be clearly distinguished, operationally and for financial reporting purpose, from the rest of the entity", ie a component of an entity. If the subsidiary is scheduled to be resold, it would mean that the operation as a whole rather than individual assets or disposal groups, will be disposed of. So the operations and cash flows of that component will be eliminated from the ongoing operations of the consolidated reporting entity as a result of its disposal and the consolidated reporting entity will no longer have significant continuing involvement in that component after its disposal. Therefore, the subsidiary would satisfy the criteria of classification as a discontinued operation. In this case, the revenue, expense, etc. (par.24 (a) of the draft IFRS) of the subsidiary are disclosed as the result of the discontinued operation.

However, we believe it to be quite contradictory to classify a newly acquired subsidiary as a discontinued operation for the following reasons: (1) The term "discontinued operation" implies that such operation has been in "continuous" business until it has been decided to be disposed of. (2) However, the newly acquired subsidiary has never been in operation within the consolidated reporting entity until it was acquired. (3) Therefore, to classify a newly acquired subsidiary as a discontinued operation when it has never been in operation within the consolidated reporting entity is misleading and contradictory.

Hence, the IASRC suggests that the investment in a subsidiary itself should be treated as “held for sale”, whilst the subsidiary is excluded from the consolidated financial statements.

Question 7 – 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?

The IASRC agrees with the proposed presentation.

Question 8 – 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?

Basically, the IASRC supports the convergence of the proposed IFRS and SFAS 144, ie "adopting the criteria of an component of an entity". In addition, the IASRC suggests that examples on implementing the criteria of a component of an entity should be provided for better understanding. Because "a separate major line of business" and "geographical area of operations" of IAS 35 still could be a component of an entity(although adopting the new criteria), they could be included in the implementation examples.

The IASRC believes that the other aspects of these criteria for classification as a discontinued operation are appropriate.

Question 9 – 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?

The IASRC prefers the alternative approach 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, because this approach would make the income statements simple and easy to understand.

? Other comments

The IASRC has other comments on the draft IFRS as follows.

- Paragraph 3 of the draft IFRS need clarification that both current assets and current liabilities can form part of a disposal group.

- Paragraph 29 of the draft IFRS should require specific disclosures regarding the determination of fair values.

- Paragraph 31 of the draft IFRS should include transitional provisions for transactions initiated before the effective date of the standard.