MINISTERIO
DE ECONOMÍA

INSTITUTO DE CONTABILIDAD
Y AUDITORÍA DE CUENTAS

SPANISH ACCOUNTING AND AUDITING INSTITUTE (ICAC)

COMMENTS ON ED 4 DISPOSAL OF NON-CURRENT ASSETS AND PRESENTATION OF DISCONTINUED OPERATIONS

We entirely agree with the IASB that convergence of accounting standards around the world should be one of the prime objectives, nevertheless, we understand that convergence should secure the best standards even though they may diverge from existing IAS or SFAS, that is to say that we prefer a simple and clear accounting solution that a full convergence.

Our main concerns with the proposed standard are the following:

1. We believe that Appendix B contains key requirements that should be part of the standard instead of being separated in an Appendix. We think that the current Appendix approach makes the draft standard less easy to read even to apply.

2. We are very worry about the non-depreciation of the assets held for sale. We strongly support the alternative view of the first and second Board member that voted against the publication of ED 4, as it is said in AV4 and AV9.

   We believe that is conceptually wrong to cease depreciation while such asset is still in active use, we would prefer such assets classified as held for sale to be accounted as i they were abandoned, because although they have been classified as held for sale, they are still been used in operations.

3. In SFAS 144.27 it is said that *"A long-lived asset to be disposed of other than by sale (For example, by abandonment, in an exchange for a similar productive long-lived asset, or in a distribution to owners in a spinoff) shall continue to be classified as held and used until it is disposed of"*.

   The SFAS makes a difference between long-lived assets to be disposed of other than by sale and to be disposed of by sale, nor does the IASB when in paragraph 5 of ED 4 it is said, *"Sale transactions include exchanges of non-current assets for other non-current assets"*.

   We prefer the SFAS approach, as we do not support the proposal of ED of Proposed Improvements to IAS, related to the measurement of exchanges at fair value.

C/ HUERTAS, 26
28014 MADRID
TEL.: 91 389 56 00
FAX: 91 429 94 86

4. We believe that there is an inconsistency between paragraphs B3 and the definition of current asset.

   In paragraph B3 it is stated that *"When an entity acquires a non-current asset exclusively with a view to its subsequent disposal, it shall classify the non-current asset as held for sale at the acquisition date (...)"*, and in the characteristic (c) of the definition it is said that an asset should be classified as current if *"is expected to be realised within twelve months of the balance sheet date"*.

   We believe that if an entity acquires an asset exclusively with a view to its subsequent disposal, that is not a non-current asset, it should be classified as current.

5. Finally, we support the EFRAG's concern about the IASB timetable in attempting to complete both the 2005 standards and the short-term convergence programme by 2005.

   There will be a great number of important standards that will be published in March 2004, so we urge IASB to reconsider its timetable with a view to accelerating those standards where serious comparability issues arise and delaying those that are not critical to the development of a high quality set of 2005 standards.

We insert our answers to the questions stated in the above mentioned draft:

COMMENTS ABOUT THE EXPOSURE DRAFT 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?

Response

We agree with the IASB proposal to classify separately non-current assets held for sale, nevertheless we have serious doubts about that kind of assets to be non-current.

We also refer to our comments 1, 3 and 4 stated at the beginning of our comment letter.

C/ HUERTAS, 26
28014 MADRID
TEL.: 91 389 56 00
FAX: 91 429 94 86

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?

Response
We support the EFRAG's comments, we also refer to our comment 2 stated at the beginning of our comment letter.

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?

Response
We support the EFRAG's comments.

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?

Response
We refer to our comment 4 stated at the beginning of our comment letter.

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)

C/ HUERTAS, 26
28014 MADRID
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FAX: 91 429 94 86

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?

<u>Response</u>
We support the EFRAG's comments.

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?

<u>Response</u>
We support the EFRAG's comments.

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?

<u>Response</u>
We support the EFRAG's comments.

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.

C/ HUERTAS, 26
28014 MADRID
TEL.: 91 389 56 00
FAX: 91 429 94 86

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?

Response
We believe that the proposed threshold for a discontinued operation is too low.

We prefer not to withdraw IAS 35 as is a presentation and disclosure Standard, if what the IASB wants is to change the definition of a discontinued operation, we think that IAS 35 should be amended but no withdrawn.

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?

Response
We support the EFRAG's comments.

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