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24 October 2003

Sir David Tweedie, Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Exposure Draft ED 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations*

Dear Sir David,

Deloitte Touche Tohmatsu is pleased to comment on the International Accounting Standards Board's (the Board's or IASB's) Exposure Draft—ED 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations*. (ED 4 or the Exposure Draft). Our responses to the questions raised in the Exposure Draft are set out in the Appendix.

Overall, we support the proposals in the Exposure Draft and commend the Board for its efforts to converge standards globally. We believe that ED 4 is consistent with the Board's objective to converge topics around high quality solutions. We support the smaller size for separate disclosure of discontinued operations and the additional information provided and believe the proposals to be an improvement over the existing requirements in IAS 35 *Discontinuing Operations*.

As indicated in our response to Question 2, we note that the revised measurement principles in IAS 16 *Property, Plant and Equipment* and IAS 36 *Impairment of Assets* would lead to essentially the same measurement for non-current assets held for sale as that proposed under the Exposure Draft. As a result, we suggest the Board revisit the need to introduce new measurement principles for non-current assets classified as held for sale.

We appreciate the opportunity to provide our comments. If you have any questions concerning our comments, please contact Ken Wild in London at (0207) 007 0907.

Sincerely,

Deloitte Touche Tohmatsu

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?

We agree with the proposal to classify separately non-current assets held for sale, as defined by paragraphs 4 and 5 and Appendix B of the Exposure Draft and believe that it improves the information available to users of financial statements in assessing the timing and amount of future cash flows.

We note that Appendix B contains additional guidance on the classification of non-current assets held for sale. We believe the guidance in paragraphs B1 – B4 is key to the application of paragraph 4 and would be more appropriately placed immediately following paragraph 4.

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?

We suggest the Board revisit the need to introduce new measurement principles for non-current assets classified as held for sale. As noted in BC 22 of the Basis for Conclusion, an entity should often achieve a measurement effect under existing IFRS similar to that proposed under ED 4 as the revisions to IAS 16 *Property, Plant and Equipment* will require an entity to keep its residual value up to date, and IAS 36 *Impairment of Assets* requires an immediate write-down to the higher of value in use and fair value less costs to sell.

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?

We agree that assets and liabilities that are to be disposed of together in a single transaction be treated as a disposal group.

As regards measurement, it is unclear whether or not the Board intended liabilities that are included in the disposal group to be remeasured at fair value when allocating any excess carrying amount of the disposal group over its fair value less costs to sell. We believe the Board should be explicit in the final Standard that liabilities that are part of a disposal group should not be remeasured at fair value unless required by another IFRS. We note the discussion in B51, B91 and B92 in SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which indicates that liabilities would not be remeasured at fair value unless required by other standards.

If the Board's intention was to remeasure liabilities at fair value, we note that paragraph 14 of the Exposure Draft requires that any impairment loss of the disposal group be attributed to the assets of the disposal group. This would suggest that any impairment loss resulting from an increase in the liabilities of the disposal group would be allocated to the assets of the disposal group. This appears to contradict the footnote to BC 28 of the Basis for Conclusion which makes a reference to the requirements of IAS 36 Impairment of Assets and notes that the carrying amount of an asset should not be reduced below the highest of (i) its fair value less costs to sell and (ii) its value in use and (iii) zero.

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?

We agree.

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) 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?

We agree.

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?

In general, we believe that the IASB should develop standards based on sound principles that are consistent with and derived from the IASB Framework. Such standards should limit to the greatest extent possible exceptions to scope. In cases where scope exceptions are deemed necessary, they should be sufficiently narrow. In that respect, the proposed removal of the exemption is consistent with the view that once an entity takes control over another entity, normal consolidation procedures must apply regardless of how long these consolidation procedures will apply.

However, we suggest the IASB reassess the practical consequences of its proposal to eliminate the exemption to consolidate subsidiaries acquired and held exclusively with a view to resale. We note that the revisions to IAS 27 *Consolidated and Separate Financial Statements* already will shorten to twelve months the period for the exemption of consolidation for a subsidiary acquired and held exclusively with a view to resale. If the exemption were to be removed, acquirers will have to implement consolidation procedures for very short periods of time. We encourage the Board to reconsider whether the benefit of such an exercise is worth the cost. We note the IASB's consolidation project and believe that may be a more appropriate venue to discuss the notion of temporary control and general scope of consolidated financial statements.

We also note that under IAS 27 revised, subsidiaries not consolidated will be carried at fair value under IAS 39 *Financial Instruments: Recognition and Measurement*. In many cases this amount may approximate the fair value of the assets and liabilities allocated to the acquiree. As a result, there may not be significant measurement differences between that required currently under IAS 27 and the Exposure Draft.

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?

We agree.

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.

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?

We support the smaller size for separate disclosure of discontinued operations and the additional information provided and believe the proposals to be an improvement over the existing requirements in IAS 35. We note that cash flows and results of a "component of an entity" can be material even when they do not represent a separate major line of business or geographical area. As the units being classified as discontinued under this Exposure Draft will be smaller as compared to IAS 35, we believe that this Exposure Draft will improve the quality of the information made available to users of financial statements.

The definition of a "component of an entity" makes reference to "operations". We suggest that the final standard include more guidance on what is an "operation". Language similar to that in IAS 35.11-12 may be helpful in order to assess whether a component of an entity can be identified.

We note that the U.S. Emerging Issues Task Force (EITF) recently added a project to its agenda that will address issues related to paragraph 42 of SFAS 144. Issues specifically addressed relate to which cash flows should be considered part of the disposal group and what forms of involvement constitute "significant" continuing involvement.

Given the similarity of the criteria in paragraph 23 of ED 4 to that in paragraph 42 of SFAS 144, we suggest the Board take into consideration any additional guidance issued by the EITF in developing its final Standard. In addition, the Board may find helpful the guidance in the Appendix to IAS 18 *Revenues*, which addresses issues related to continuing involvement. To the extent that guidance has not been issued by the time the Board issues a final Standard, we suggest any outstanding issues be referred to the IFRIC for consideration.

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?

We note the discussion in paragraph BC 55 of the Basis for Conclusion and the concern raised by the Board in regards the project on Reporting Performance. However, a cornerstone of the IASB's efforts to converge standards around high quality solutions is to foster greater comparability in financial statements and financial statement presentation. To that end, we believe that it is important to have the same presentation requirements for all entities with discontinued operations. The presentation requirement in SFAS 144 (i.e., a single amount) provides useful information to the users of financial statements and we believe best results in comparability among entities with discontinued operations.

We also suggest the final Standard include an example illustrating the presentation of a discontinued operation. We believe guidance similar to that currently included in the Appendix to IAS 35 would be useful.

We recommend that ED 4, if finalised in its current state, clarify what elements should be included in the captions "revenue" and "expenses".

Other comments

- General drafting – We note that the IASB has made the decision to use the wording in SFAS 144 to the greatest extent possible to enhance convergence. We would encourage the IASB to consider the interpretations of those requirements by the SEC and EITF to clarify the standards where necessary (see, for example, SAB Topic 5-Z.4, SAB Topic 5-E, EITF Topic D-104).
- Paragraph 2 – We note that certain scope differences exist between ED 4 and SFAS 144. For example, an investment in an associate could be classified as a discontinued operation under IFRS, but not under U.S. GAAP. Additionally, certain intangibles (i.e., long term customer relationships and indefinite life intangibles) are excluded from the scope of SFAS 144, but are within the scope of

ED 4. We suggest the scope of ED 4 be conformed to the greatest extent possible with SFAS 144. Therefore, we encourage the Board to re-consider whether investments in associates should be excluded from the scope of ED 4. In regards the intangibles included from the scope of ED 4, we suggest that these items be excluded from the scope of ED 4, pending completion of ED 3 *Business Combinations*.

- Paragraph 21 – We believe guidance on how to present any minority interest related to a discontinued operation in the balance sheet and in the income statement (i.e., is it a separate line item or not) would be useful to ensure consistent reporting. We also believe that it would be useful for the users of financial statements to have information about other equity components that will be affected by the sale of disposal groups (such as on the cumulative translation reserve, the revaluation reserves, etc.).

- Paragraph BC 26 of the Basis for Conclusions - We believe there is a drafting error in the last sentence that should read "Hence the draft IFRS does not permit any exchange differences to be recycled on the classification of an asset or a disposal group as held for sale". Otherwise the last sentence may indicate that accumulated exchange differences may be recognised at the date a foreign operation is classified as held for sale. We do not believe that this treatment is consistent with what is required under IAS 21 *The Effects of Changes in Foreign Exchange Rates*.