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FRIDAY, 24 OCTOBER 2003

**Sir DAVID TWEEDIE**
**IASB Chairman**
30 Cannon Street

**LONDON EC4M 6XH**

**United Kingdom**

AB/GV/MP

N° 547

Dear David,

On behalf of the Conseil National de la Comptabilité (CNC) I am writing to comment on the Exposure Draft 4 *Disposal of non-current assets and presentation of discontinued operations.*

While we fully concur with the convergence objective of the IASB, we consider essential to draw the Board's attention to the inappropriateness of the convergence methodology adopted in the case of this specific draft:

- convergence creates discrepancies inside IFRS standards. As an example of this, ED 4 tells us to evaluate goodwill according to IFRS 36, as goodwill is out of the scope of ED4. Still, we do not understand how it is possible to evaluate the goodwill pertaining to a disposal group according to IAS 36, when the other elements of this group are evaluated according to ED4. Besides, we are concerned about the IASB timetable and we believe that the short-term convergence project could collide with other IASB projects, which are not yet completed ( see Business Combination phase I).

- convergence should be obtained through the revision of principles and standards dealing with general issues, not through isolated specific issues. We would support the Board future convergence efforts on impairment issues, if they were to concern principles and requirements for the evaluation of cash flow as they are different under IASB's and FAS's standards.

Although we appreciate the intent of the project, we have doubts about the need for any new standard regarding this specific issue. We consider that the covering of measurement and impairment of assets by the current standards IAS 16, IAS 36 and IAS 38 is of higher quality than this exposure draft.

However, the CNC supports a separate classification for assets held for sale because it provides useful information to the users ; but it does not support all the measurement issues presented in the Draft, notably depreciation ceasing when an asset is classified as held for sale.

As far as discontinued operations are concerned, we believe that IAS 35 based on “major line of business” or “geographical area of operations” provides sufficient and useful information and avoids frequent restatements of comparative financial information. We consider that the threshold for a discontinued operation as defined in this Exposure Draft is too low, leading to cumbersome requirements for preparers and confusion for users if too many activities are being included.
Hence we suggest to maintain the current IAS 35 and complete it with classification, presentation and disclosure issues for non-current assets held for sale. We wish the Board would harmonize, inside IFRS standards (IAS 14, IAS 36, IAS 35 and ED4), the notion of division level of an entity in order to avoid confusion for users and burdensome requirements for preparers.

Yours sincerely,

**Antoine BRACCHI**

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 IASB to classify separately non current assets held for sale in the financial statements.

We agree with the principle that a non-current asset should be classified as held for sale if its carrying amount is recovered principally through a sale transaction. However, we believe that appendix B paragraph B1 criteria are too much detailed. We consider that the classification should be principle based, not rule based. The main criterion for the classification is that the sale be highly probable (criterion d) which implies both management commitments and ability to sell. The other criteria listed should only be used as indicators of these commitments and ability. We believe that it would be useful if the final standard contained illustrative detailed examples dealing with the classification of non-current assets as held for sale.

Moreover, in some cases, a forecasted transaction will not be completed within twelve months. Therefore twelve months should not be a strict criterion for the classification. When the transaction is expected to be completed within more than twelve months and the non current assets are considered as held for sale, an explanation should be given in the notes. Besides, we disagree with IASB’s comments on exchanges and we believe that accounting for exchange of assets cannot be dealt in this project as it is a part of a much broader issue. As explained in our response to the Exposure Draft of Proposed Improvements we consider that accounting for exchange of assets and particularly non-monetary assets should be dealt with comprehensively in a separate project which would need to cover all exchanges of assets (intangibles, services….).

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 disagree with the IASB and consider that assets held for sale should be measured like other assets, that is to say, in conformity with requirements of current IAS 16, 36 and 38.

For a non-current asset held for sale, the recoverable amount should be equal to:

- the estimated future cash flows expected to arise from its continuing use until the expected date of sale,
- plus the expected net cash flows at this date.

Moreover, we believe that depreciation should not cease as long as the assets are in use. We consider that the Board's proposal could lead to cease depreciation for assets classified as held for sale whereas they are still being used and bringing in cash flows.
In conclusion, we believe that the current standards ( IAS 16, 36 and 38) are of higher quality than the proposed requirements set up to measure assets classified as held for sale.

### 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 to classify as a disposal group assets and liabilities that are to be disposed of together.
We refer to our response to question 2. We recommend to use both IAS 16 and 36 to measure assets included in a disposal group.
Moreover, we consider that it would be very useful for users and preparers if the Board would clarify the notion of "level of division of an entity" inside IFRS:

- IAS 14 divides an entity into segments:" *a distinguishable component of an enterprise that is engaged in providing products or services";*
- IAS 36 divides an entity into cash generating units: "*the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets*";
- ED 4 divides an entity into components: "*operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity"*.

Such discrepancies could lead to misunderstandings for users and burdensome requirements for preparers of financial statements.

### 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 support the proposed consequential amendment to draft IFRS X Business Combination.

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 do not support the Board's proposal. We propose to maintain the requirements of IAS 16 § 37 and § 38 for revalued assets. Each increase or decrease of the fair value less costs to sell should be charged to the reevaluation surplus. We consider it is not advisable to account for the cost of sale in the income statement before the actual service is rendered. When the reevaluation surplus is totally written off, all changes in the fair value less costs to sell are recognised in the income statement.

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?*

We disagree with the Board's proposal.
We do not support the removal of the exemption from consolidation and we suggest to present in the balance sheet the fair value of the global investment in the subsidiaries less costs to sell the investment. We believe that a separate presentation in the balance sheet of all assets and liabilities is less relevant than recognizing the investments as a whole, less costs to sell. The total investment is going to be sold, not individual items. Besides, the implementation of the proposed requirement would be difficult, and that, for an information that would have little value, if any, for the readers of the accounts.

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 with IASB.
We agree 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 in order to improve the information available to users of financial statements.
As it is prescribed by the IFRS Framework, assets and liabilities of a disposal group classified as held for sale should not be offset.

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 are concerned that the threshold for a discontinued operation is too low, leading to confusion for users and cumbersome requirements for preparers if too many activities are being included.
In conclusion, we believe that the earlier reporting under IAS 35 provides better information for users.

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 prefer the alternative approach because the presentation of a single amount, profit after tax for discontinued operations on the face of the income statement, is easily understandable. Detailed information in the notes would be more relevant for investors and other users.