Organizacion Internacional
de Comisiones de Valores

International Organization
of Securities Commissions

Organisation internationale
des commissions de valeurs

Organização Internacional
das Comissoes de Valores

OICU·IOSCO

November 14, 2003

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our thoughts regarding ED 4, *Disposal of Non-Current Assets and Presentation of Discontinued Operations* (referred to herein as ED 4).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement.[1] Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Comments

We note from the IASB's stated mission on the website and the announcement of this Exposure Draft that the convergence of accounting standards around the world is one of the primary objectives of the International Accounting Standards Board (IASB). We also understand that the Board undertook this project as part of the joint efforts of the IASB and the Financial Accounting Standards Board (FASB) to examine each other's standards in given subject areas and to jointly decide which standard should be proposed for both bodies. IOSCO encourages the IASB to work with the FASB and other national standards setters toward greater convergence in accounting standards in order to facilitate cross-border offerings and listings.

[1] See IOSCO website, www.iosco.org

As part of this convergence effort, the Board may wish to consider any significant interpretative issues related to discontinued operations that have emerged in the U.S. and elsewhere, along with other comments that may be received in the exposure process. Members of SC 1 have noted that issues raised in the U.S. include questions as to (a) which cash flows are to be considered in reporting discontinued operations and (b) what forms of continuing involvement constitute "significant continuing involvement" in determining whether or not a component of an entity that has been disposed of, or is classified as held for sale, should be classified as a discontinued operation.

While our Standing Committee members are supportive of the goal of global convergence and the joint efforts of the IASB and FASB to resolve differences in accounting standards, some Standing Committee members have also expressed concern that convergence work must not detract from efforts to complete several final IASB standards, which need to be in place for the 2005 first time adoption of IFRS in numerous countries. In particular, members are eager to receive the final standards on the IASB Improvements Project. In considering ED 4, our review was complicated by the fact that some provisions in this ED are overlaid upon changes in other standards in the Improvements Project and we have not yet seen those other changes in final form. As there is a degree of interactivity among all the changes in progress, we urge that the final standards in the Improvements project be issued as soon as possible.

Comments in Response to Specific Questions in the ED

The Board has asked for comments relative to nine specific questions addressed within the Invitation to Comment section of ED 4. We would like to address each of the nine questions, and will also comment on a few specific paragraphs within ED 4.

Scope

Paragraph 2 of ED 4 specifically excludes from its scope assets arising from employee benefits, which are not excluded from the scope of SFAS 144, the comparable U.S. accounting standard which is cited in the ED's description of the convergence effort. Since the ED 4 project is presented as a convergence project, and the statement in Paragraph BC8 (d) regarding measurement basis being addressed by other IFRSs would not seem to be unique to employee benefits, we believe some additional explanation as to why this item is excluded from the scope of this document would be helpful.

Question 1 – Classification of non-current assets held for sale

We agree with this classification for the reasons stated within ED 4.

It is currently unclear in the main accounting standard where assets held for sale should be classified on the balance sheet based on the wording found in paragraph 4. For example, could such assets appear only in current assets or also within non-current assets, if the likely period before sale exceeds one year?

In our comment letter dated November 7, 2002, on the Exposure Draft of Proposed Improvements to International Accounting Standards ("Improvements comment letter"), we expressed our concern over one of the ED's proposed changes to IAS 16, *Property, Plant and Equipment,* that would require that exchanges of property, plant and equipment be accounted for at fair value regardless of whether a transaction is an exchange of similar or dissimilar assets. We continue to be concerned that the exchange of similar productive assets could result in revenue and gain recognition in transactions that are not substantive, and therefore we are concerned that such exchanges might be considered "sales" in ED 4. The intended treatment of such exchange transactions should be covered explicitly in the final standard.

Paragraph 5 of ED 4 includes a reference to Appendix B, which includes the criteria for classification as held for sale. Due to the importance of these factors in actually defining this category of assets, we believe the Board should consider including these factors within the main body of the document rather than just in the Appendix.

Paragraph 5 also contains wording that "classification as held for sale shall be required when and only when the criteria currently contained in Appendix B are met." We are concerned that there may be circumstances in which some but not all of the criteria in Appendix B are met, but the held for sale classification is desired by the issuer, and the issuer could misinterpret this "required when and only when" statement to permit an election to use the classification even if not required. We would encourage the Board to clarify the intended application by substituting "required and permitted" for "required" or otherwise clarify the first sentence of this paragraph. It is our understanding that what is intended is that;

- if all the criteria are met, the held for sale classification must be used, and
- if all the criteria are not met, the held for sale classification may not be used.

Question 2 – Measurement of non-current assets classified as held for sale

In the Standing Committee discussions on the depreciation of assets held for sale, our members have expressed mixed views. Some members believe it is inappropriate to cease depreciation on assets that are still used, particularly if such assets are generating revenues. These members note that the requirement for residual values to be assessed annually, coupled with the impairment test as it is carried out under IAS 36, could mean that it is not appropriate to cease depreciation. Other members believe that depreciation accounting is inconsistent with the lower of carrying amount or fair value measure for a long-lived asset classified as held for sale. The appropriate treatment and rationale therefore would seem to be a fundamental point requiring further deliberation and explanation.

As mentioned earlier in this letter, it was difficult during our review of ED 4 to fully understand and visualize the interaction between ED 4 and the proposed improvements to IAS 16 because we have not seen the final standard. There were other cases where our review was similarly complicated and we hope that the Improvements final standards will be issued soon.

Question 3 – Disposal groups

Based upon the wording found in paragraphs 2, 3, and 11 through 14, we believe it is intended that goodwill is excluded from the scope of this document, unless it is part of a disposal group. We believe the Board should consider adding a sentence to paragraph 2 to clarify this point, if this is what the Board intended. Additionally, we believe examples of how this point would be applied to a disposal group would be helpful.

Question 4 – Newly acquired assets

Paragraph 9 of ED 4 specifies that newly acquired assets that meet the criteria to be classified as held for sale should be initially measured at fair value less costs to sell. Appendix A of ED 4 defines costs to sell as, "The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding financing costs and income tax expense." We believe this definition should be expanded to specifically exclude sale-necessitated restructuring costs (i.e., costs for restructuring on which the sale is conditioned) from costs to sell. Absent this clarification, we believe this is a potential area for misunderstanding.

Question 5 – Revalued assets

We agree that, for revalued assets, impairment losses arising from the write-down of assets 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, for the reasons stated within ED 4. We also agree that this principle should be applied to revalued assets within a disposal group.

However, based on the guidance found in paragraphs B5 to B8, it is unclear how disposal groups that include both revalued and non-revalued assets would be treated. Specifically, should the changes in fair value attributable to the non-revalued assets be recorded on the income statement, consistent with paragraph 12 of ED 4, while the changes in fair value attributable to the revalued asset be recorded either in equity or in the income statement, in accordance with the standard under which the assets were revalued before their classification as held for sale? The standard currently implies that all changes in fair value, regardless of whether they are for revalued or non-revalued assets, could be recorded in either income or equity in accordance with the standard applicable to the revalued assets, which, for non-revalued assets, would be inconsistent with paragraph 12. We suggest that the Board clarify its intention and consider whether the mere inclusion within a disposal group of both revalued and non-revalued assets should result in different accounting treatment for fair value gains and losses on non-revalued assets. An illustrative example of the application of these paragraphs may be helpful.

Question 6 – Removal of the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale

We believe that the removal of this exemption is generally appropriate for the reasons stated within ED 4. A point arose in our discussion, however, concerning the desirability or practicability of performing full acquisition and consolidation accounting including a full identifiable asset and goodwill allocation for an entity that is acquired exclusively for resale within a short time. It was noted that since a year is allowed for the allocation, an entity might be sold before the process was completed. At the same time, we recognize the problems that can arise with granting exceptions to accounting principles, and therefore we only wish to raise this as an issue for the Board's further consideration.

Question 7 – Presentation of non-current assets held for sale

We believe that the presentation of non-current assets held for sale is appropriate for the reasons stated within ED 4.

Question 8 – Classification as a discontinued operation

We support the criteria for classification as a discontinued operation as currently stated within ED 4 for the reasons outlined within that document.

The requirements for presentation of discontinued operations are identical between paragraph 22 of ED 4 and paragraph 41 of SFAS 144 in that a component of an entity "comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity." However, ED 4 states that a component of an entity may be a cash-generating unit or any group of cash-generating units. SFAS 144 states that a component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary or an asset group. A cash-generating unit, as defined within this document and within IAS 36, is required to generate cash inflows but is not required to generate cash outflows. The US GAAP definitions of operating segment, reporting unit, segment and asset include entities that generate cash inflows, cash outflows or both cash inflows and outflows. As a result, there could be some entities that generate only cash outflows, and thus would qualify for discontinued operations treatment under SFAS 144 but would not qualify for discontinued operations treatment under ED 4. We would encourage the Board to consider further convergence in this area. Alternatively, the Board could provide an explanation for the divergence within the document.

Some members have noted the importance of disclosure when plans for disposal are announced even if the plans do not yet qualify for discontinued operations treatment under the provisions of ED 4. We would encourage the Board to consider requiring disclosure of these events in the interest of providing relevant and timely information to investors.

Question 9 – Presentation of a discontinued operation

We recognize the Board's rationale for its proposed presentation to maintain consistency with IAS 35 *Discontinuing Operations* and not prejudge the outcome of future deliberations. We agree with the approach taken at this point in time for the reasons stated.

Basis for Conclusions

Since ED 4 is presented as a convergence project, we believe that a discussion of any remaining differences between SFAS 144 and ED 4 would be helpful. For example, SFAS 144 specifically excludes from its scope equity method investments. These investments are not excluded from ED 4. We believe that discussions of these continuing types of differences would be informative and beneficial to readers of this document.

We also believe that a table showing the areas of divergence would be useful information, similar to the tables of concordance presented within Appendix B of the Basis for Conclusions.

If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-942-4400.

Sincerely,

Scott A. Taub

Scott Taub
Chairman
IOSCO Standing Committee No. 1