Basis for Conclusions on

Exposure Draft

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

Comments to be received by 24 October 2003

This Basis for Conclusions accompanies the proposed International Financial Reporting Standard (IFRS) set out in ED 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations* (see separate booklet). Comments on the draft IFRS and its accompanying documents should be submitted in writing so as to be received by **24 October 2003**.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence. If commentators respond by fax or email, it would be helpful if they could also send a hard copy of their response by post. Comments should preferably be sent by email to: **CommentLetters@iasb.org.uk** or addressed to:

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

Fax: +44 (0)20 7246 6411

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Contents

Basis for Conclusions

ED 4 Disposal of Non-current Assets and Presentation of Discontinued Operations

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This Basis for Conclusions accompanies, but is not part of, the draft IFRS.

INTRODUCTION

BC1 This Basis for Conclusions summarises the Board's considerations in reaching the conclusions in the draft IFRS *Disposal of Non-current Assets and Presentation of Discontinued Operations*. Individual Board members gave greater weight to some factors than to others.

BC2 In September 2002 the Board agreed to add a short-term convergence project to its active agenda. The objective of the project is to reduce differences between IFRSs and US GAAP that are capable of resolution in a relatively short time and can be addressed outside current and planned major projects. The project is a joint project with the US Financial Accounting Standards Board (FASB).

BC3 In working towards the objective of the project, the two boards agreed to review each other's deliberations on each of the selected possible convergence topics, and choose the highest quality solution as the basis for convergence. For topics recently considered by either board, there is an expectation that whichever board has more recently deliberated that topic will have the higher quality solution.

BC4 As part of the review of topics recently considered by the FASB, the Board discussed the requirements of SFAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*, as they relate to assets held for sale and discontinued operations. The Board did not consider the requirements of SFAS 144 relating to the impairment of assets held for use. Impairment of such assets is an issue that is being addressed in the IASB research project on measurement being led by the Canadian Accounting Standards Board.

BC5 The requirements of SFAS 144 on assets held for sale and discontinued operations differ from current IFRSs in the following ways:

(a) if specified criteria are met, non-current assets that are to be disposed of are classified as held for sale. Such assets are remeasured at the lower of carrying amount and fair value less costs to sell and cease to be depreciated or amortised. Under IFRSs, non-current assets that are to be disposed of are not classified separately or measured differently from other non-current assets.

(b) the definition of discontinued operations under SFAS 144 is different from the definition of discontinuing operations under IAS 35 *Discontinuing Operations* and the presentation of such operations is also different under the two standards.

BC6 As discussed in more detail below, the Board concluded that introducing a classification of assets that are held for sale would substantially improve the information available to users of financial statements about assets to be sold. It further concluded that the definition of discontinued operations in SFAS 144 leads to more useful information being presented and disclosed for a wider range of operations than does the existing definition in IAS 35.

BC7 Appendix B to this Basis for Conclusions sets out tables of concordance showing how the paragraphs in the draft IFRS relate to those in SFAS 144.

SCOPE OF THE DRAFT IFRS

BC8 The Board agreed that the draft IFRS should apply to all non-current assets except:

(a) goodwill, because goodwill can never be an asset held for sale other than as part of a disposal group and the allocation of goodwill to disposal groups is covered by draft IFRS X *Business Combinations.*

(b) financial instruments covered by IAS 39 *Financial Instruments: Recognition and Measurement*, because IAS 39 addresses the treatment of financial assets that are held for sale.

(c) financial assets under leases, which are currently excluded from IAS 39 but which the Board proposes should be within the scope of that standard. If those proposals become effective, these assets will be covered by the exemption in (b) and this exemption will not be needed.

(d) deferred tax assets and assets arising from employee benefits, because their measurement basis is addressed by other IFRSs.

BC9 The scope of the draft IFRS differs from that of SFAS 144 in the following ways:

Item	**SFAS 144**	**Draft IFRS**
Intangible assets not being amortised	Excluded	Included
Long-term customer relationships	Excluded	Included
Associates	Excluded	Included
Assets in specialised industries covered by other FASB statements	Excluded	Included
Insurance contracts	Included other than deferred acquisition costs	Included
Extractive industries	Included other than unproved oil and gas properties that are being accounted for using the successful-efforts method of accounting	Included
Employee benefit assets	Included	Excluded

SFAS 144 addresses impairment of long-lived assets held for use as well as assets held for sale. That fact, together with the existence of other FASB statements on specific specialised industries, underlies many of the FASB exclusions listed above. The Board believes that the assets should be covered by the draft IFRS, which addresses only assets classified as held for sale.

Classification of non-current assets to be disposed of as held for sale

BC10 Under SFAS144 long-lived assets are classified as either (i) held and used or (ii) held for sale. Under IFRSs no distinction is made between non-current assets held and used and non-current assets held for sale, except in relation to financial instruments.

BC11 The Board considered whether a separate classification for non-current assets held for sale would create unnecessary complexity in IFRSs and introduce an element of management intent into the accounting. Some suggested that the categorisation 'assets held for sale' is unnecessary, and that if the focus were changed to 'assets *retired* from active use' much of the complexity could be eliminated, because the latter classification would be based on actuality rather than what they perceive as management intent. It is the potential abuse of the classification that necessitates many of the detailed requirements in SFAS 144. Others suggested that, if existing IFRSs were amended to specify that assets retired from active use are measured at fair value less costs to sell and to require additional disclosure, some convergence with SFAS 144 could be achieved without creating a new IFRS.

BC12 However, the Board concluded that providing information about assets and groups of assets and liabilities to be disposed of is of benefit to users of financial statements. Such information should assist in assessing the timing and amount of future cash flows. The Board understands that this was also the assessment underpinning SFAS 144. Therefore the Board concluded that introducing the notion of assets and disposal groups held for sale makes IFRS literature more complete.

BC13 Furthermore, although the held for sale classification begins from an intent to sell the asset, the other criteria for this classification are tightly drawn and are significantly more prescriptive than simply specifying an intent or commitment to sell. Some might argue that the criteria are too specific. However, the Board believes that the criteria should be specific to achieve comparability of classification between entities. The Board did not believe that a classification 'retired from active use' would necessarily require fewer criteria to support it. For example, it would be necessary to establish a distinction between assets retired from active use and those that are temporarily idle.

BC14 Lastly, if the classification and measurement of assets held for sale under IFRSs are the same as under US GAAP, convergence will have been achieved in an area of importance to users of financial statements.

Assets to be exchanged for other non-current assets

BC15 Under SFAS 144, long-lived assets that are to be exchanged for similar productive assets cannot be classified as held for sale. They are regarded as disposed of only when exchanged. The Basis for Conclusions for SFAS 144 explains that this is because the exchange of such assets is accounted for at amounts based on the carrying amount of the assets, not at fair value, and that using the carrying amount is more consistent with the accounting for a long-lived asset to be held and used than for a long-lived asset to be sold.

BC16 Under draft IAS 16 *Property, Plant and Equipment,* an exchange of assets is normally measured at fair value. The SFAS 144 reasoning on the classification of such assets as held for sale does not, therefore, apply. Consistent with draft IAS 16, the draft IFRS treats an exchange of assets as a disposal and acquisition of assets.

BC17 The FASB is considering whether to converge with the proposed IASB requirement for an exchange of assets to be measured at fair value. The FASB has indicated that if it were to change its requirements for asset exchanges, it would also need to reconsider whether such assets could be classified as assets held for sale.

Measurement of non-current assets held for sale

BC18 Under SFAS 144, a long-lived asset or a disposal group classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. A long-lived asset classified as held for sale (or included within a disposal group) is not depreciated, but interest and other expenses attributable to the liabilities of a disposal group are recognised.

BC19 As explained in the Basis for Conclusions for SFAS 144, the argument is that the remaining use in operations of an asset that is to be sold is incidental to the recovery of the carrying amount through sale. The accounting for such an asset should therefore be a process of valuation rather than allocation.

BC20 The FASB further observed that once the asset is remeasured, to depreciate the asset would reduce its carrying amount below its fair value less costs to sell. It also noted that should there be a decline in the value of the asset after initial classification as held for sale and before eventual sale, the loss would be recognised in the period of decline because the fair value less costs to sell is evaluated each period.

BC21 The counter-argument is that, although classified as held for sale, the asset is still being used in operations, and hence cessation of depreciation is inconsistent with the basic principle that the cost of an asset should be allocated over the period during which benefits are obtained from its use. Further, although the decline in the value of the asset through its use would be reflected in the change in fair value subsequently recognised, it might also be masked by an increase arising from changes in market prices of the asset.

BC22 However, the Board noted that draft IAS 16 requires an entity to keep its residual values 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. An entity should, therefore, often achieve a measurement effect under existing IFRSs similar to that required under the draft IFRS, as follows. Under existing IFRSs, if the fair value less costs to sell is higher than carrying amount there will be no impairment and no depreciation (because the residual value will have been updated). If fair value less costs to sell is lower than carrying amount, there will be an impairment loss that reduces the carrying amount to fair value less costs to sell and then no depreciation (because the residual value will have been updated), unless value in use is higher than fair value less costs to sell. If value in use is higher than fair value less costs to sell, there will be an impairment loss to the extent that the carrying amount exceeds value in use and then depreciation of the excess of value in use over fair value less costs to sell. However, value in use will differ from fair value less costs to sell only to the extent of the net cash flows expected to arise before the sale. If the period to sale is short, this amount will usually be relatively small.

BC23 The Board concluded that the measurement requirements of the draft IFRS would often not involve a significant change from the requirements of existing (or proposed) IFRSs. Furthermore, the Board agreed with the FASB that the cash flows arising from the asset's remaining use were incidental to the recovery of the asset through sale and, hence, concluded that assets classified as held for sale should be measured at the lower of carrying amount and fair value less costs to sell and should not be depreciated.

BC24 In addition, it is worth emphasising that the proposals permit only an asset that is to be *sold* to be classified as held for sale. Assets to be abandoned are classified as held and used until disposed of, and thus are depreciated. The Board agrees with the FASB's observation that a distinction can be drawn between an asset that is to be sold and an asset that is to be abandoned, because the former will be recovered principally through sale and the latter through its continuing use. Therefore, it is logical that depreciation should cease in the former but not the latter case.

BC25 When an asset or a disposal group held for sale is part of a foreign operation with a different functional currency from the rest of the group, an exchange difference will have been recognised in equity arising from the translation of the asset or disposal group into the presentation currency of the group. Draft IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires the exchange difference to be 'recycled' from equity to the income statement on disposal of the operation. The question arises whether classification as held for sale should trigger the recycling of any exchange differences.

BC26 In its project on reporting comprehensive income, the Board is reconsidering the issue of recycling. Therefore, it did not wish to make any interim changes to the requirements in draft IAS 21. Hence, the draft IFRS does not require any exchange differences to be recycled on the classification of an asset or a disposal group as held for sale.

The allocation of an impairment loss to a disposal group

BC27 Under SFAS 144, assets within the disposal group that are not within the scope of the Statement (for example, goodwill) are adjusted in accordance with other Statements before measuring the fair value less costs to sell of the disposal group. Any loss or gain recognised on adjusting the carrying amount of the disposal group is allocated to the carrying amount of the long-lived assets of the group.

BC28 This is different from the requirements of draft IAS 36 for the allocation of an impairment loss arising on a cash-generating unit. Draft IAS 36 requires an impairment loss for a cash-generating unit to be allocated first to reduce the carrying amount of goodwill to its implied value and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis.*

BC29 The Board considered whether the allocation of an impairment loss for a disposal group should be consistent with the requirements of draft IAS 36 or with the requirements of SFAS 144. The Board noted that the presentation of a disposal group in the balance sheet is required to comprise only two items, assets and liabilities, although greater disaggregation is allowed. In practice, it may be that non-current and current assets are presented separately. Given this, the Board agreed that the most appropriate allocation of the impairment loss is to the non-current assets that are within the scope of the draft IFRS.

Newly acquired assets

BC30 SFAS 144 requires newly acquired assets that meet the criteria to be classified as held for sale to be measured at fair value less costs to sell on initial recognition. So, in those instances, other than in a business combination, in which an entity acquires a non-current asset that meets the criteria to be classified as held for sale, a loss is recognised in the income statement if the cost of the asset exceeds its fair value less costs

* In allocating the loss in this way, draft IAS 36 also requires that the carrying amount of an asset shall not be reduced below the highest of (i) its fair value less costs to sell (if determinable), (ii) its value in use and (iii) zero.

to sell. In the more common cases in which an entity acquires, as part of a business combination, a non-current asset (or disposal group) that meets the criteria to be classified as held for sale, the difference between fair value and fair value less costs to sell is recognised in goodwill.

BC31 Under current IFRSs there is no classification of assets as held for sale and, hence, all assets acquired in a business combination are required to be measured at fair value on initial recognition. The Board considered whether, having agreed to classify assets that meet specified criteria as held for sale and to measure them at fair value less costs to sell, it should require that measure to be used for initial recognition in a business combination.

BC32 The Board's view is that conceptually the assets should be recognised initially at fair value and then immediately classified as held for sale, with the result that the costs to sell are recognised in the income statement, not goodwill. In theory, if the entity had factored the costs to sell into the purchase price, the reduced price would lead to the creation of negative goodwill, the immediate recognition of which in the income statement would offset the loss arising from the costs to sell. Of course, in practice, the reduced price will usually result in a lower net positive goodwill figure rather than negative goodwill to be recognised in the income statement. For that reason, and for the sake of convergence, the Board agreed that in a business combination non-current 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.

BC33 The Board and the FASB are considering which items should form part of the business combination transaction more generally in their joint project on the application of the purchase method. The outcome of those deliberations may affect the decision noted in paragraph BC32.

Recognition of subsequent increases in fair value less costs to sell

BC34 The Board considered whether a subsequent increase in fair value less costs to sell should be recognised to the extent that it reversed previous impairments. SFAS 144 requires the recognition of a subsequent increase in fair value less costs to sell but not in excess of the cumulative loss previously recognised for a write-down to fair value less costs to sell. The Board agreed that, under IFRSs, a gain should be recognised to the extent that it reverses any impairment of the asset, either under the proposed IFRS or previously under draft IAS 36. Recognising a gain for the reversal of an impairment that occurred before the classification of the asset as held for sale is consistent with the requirement in draft IAS 36 to recognise reversals of impairment.

Recognition of impairment losses and subsequent gains for assets that, before classification as held for sale, were measured at revalued amounts under another IFRS

BC35 The Board agreed that impairment losses and subsequent gains for assets that, before classification as held for sale, were measured at revalued amounts under another IFRS should be treated as revaluation decreases and increases according to the standard under which the assets had previously been revalued, consistently with the requirements of draft IAS 36, except to the extent that the losses and gains are caused by the initial recognition of, or changes in, costs to sell. The Board agreed that costs to sell should always be recognised in the income statement.

Measurement of assets reclassified as held for use

BC36 Under SFAS 144, when an entity changes its plan to sell the asset and reclassifies a long-lived asset from held for sale to held and used, the asset is measured at the lower of (a) the carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation (or amortisation) expense that would have been recognised had the asset (or disposal group) been continuously classified as held and used and (b) its fair value at the date of the decision not to sell.

BC37 The underlying principle is to restore the carrying value of the asset to what it would have been had it never been classified as held for sale, taking into account any impairments that may have occurred. In fact, under SFAS 144, for held and used assets, an impairment is recognised only if the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposal. Thus, the carrying amount of the asset if it had never been classified as held for sale might exceed its fair value. As a result, SFAS 144 does not necessarily lead to the asset reverting to its original carrying amount. However, the Basis for Conclusions for SFAS 144 notes that the FASB concluded it would be inappropriate to write up the carrying amount of the asset to an amount greater than its fair value based solely on an undiscounted cash flow test. Hence, it arrived at the requirement for measurement at the lower of (a) the asset's carrying amount had it not been classified as held for sale and (b) fair value at the date of the decision not to sell the asset.

BC38 Draft IAS 36 has a different measurement basis for impaired assets, ie recoverable amount. The Board concluded that to be consistent with the principle of SFAS 144 and also to be consistent with the requirements of draft IAS 36, an asset that ceases to be classified as held for sale should be measured at the lower of (a) the carrying amount that would have been recognised had the asset not been classified as held for sale and (b) its recoverable amount at the date of reclassification. Whilst this is not full convergence, the difference arises from differences in the US GAAP and IFRS impairment models.

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

BC39 SFAS 144 removed the exemption from consolidation in US GAAP for subsidiaries held on a temporary basis on the grounds that all assets held for sale should be treated in the same way, ie as required by SFAS 144.

BC40 The Board agreed that all subsidiaries should be consolidated and that all assets (and disposal groups) that meet the criteria to be classified as held for sale should be treated in the same way. The current exemption from consolidation in IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* for subsidiaries acquired and held exclusively with a view to resale prevents those assets and disposal groups within such subsidiaries which meet the criteria to be classified as held for sale from being treated consistently with other assets and disposal groups. The draft IFRS therefore proposes that the exemption in IAS 27 should be removed.

Presentation of non-current assets held for sale

BC41 SFAS 144 requires an entity to present:

(a) a long-lived asset classified as held for sale separately in the balance sheet; and

(b) the assets and liabilities of a disposal group classified as held for sale separately in the asset and liability sections of the balance sheet. The major classes of those assets and liabilities are separately disclosed either on the face of the balance sheet or in the notes.

BC42 In the Basis for Conclusions for SFAS 144 the FASB noted that information about the nature of both assets and liabilities of a disposal group is useful to users. Separately presenting those items in the balance sheet provides information that is relevant. Separate presentation also distinguishes those assets that are not being depreciated from those that are being depreciated. The Board agreed with the FASB's views.

Definition of discontinued operations

BC43 With the introduction of SFAS 144, the FASB broadened the scope of a discontinued operation from a 'segment of a business' to a 'component of an entity'. A component is widely drawn, the criterion being that it comprises 'operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity'. SFAS 144 states that a component may be a segment, a reporting unit, a subsidiary or an asset group.

BC44 However, at the same time, the FASB specified more restrictive criteria for determining *when* the component is classified as discontinued and hence when its results are presented as discontinued. Under SFAS 144, a component is classified as discontinued only if it has been disposed of or if it meets the criteria for classification as an asset 'held for sale'.

BC45 The definition of a discontinuing operation in IAS 35 as a 'major line of business' or 'geographical area of operations' is closer to the former, and narrower, US GAAP definition. The trigger in IAS 35 for classifying the operation as discontinuing is the earlier of (a) the entity entering into a binding sale agreement and (b) the board of directors approving and announcing a formal disposal plan. Although IAS 35 refers to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for further guidance on what constitutes a plan, the criteria are less restrictive than those in SFAS 144.

BC46 Paragraph 12 of the *Framework* states that the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Paragraph 15 of the *Framework* goes on to state that the economic decisions that are taken by users of financial statements require an evaluation of the ability of an enterprise to generate cash and cash equivalents. Separately highlighting the results of discontinued operations provides users with information that is relevant in assessing the ongoing ability of the entity to generate cash flows.

BC47 However, under existing IAS 35 there may be disposal transactions that, although likely to have an impact on the ongoing operations of the entity, do not meet the criteria for classification as a discontinuing activity. For example, an entity might dispose of a significant portion, but not all, of its cash-generating units operating in a particular geographical area. Under IAS 35, that might not meet the definition of a discontinuing operation. Under the draft IFRS, if the relevant criteria were met, it would.

BC48 The Board considered whether broadening the classification of discontinued operations might cause confusion for users of financial statements because it will increase the number of times that revenues and expenses for prior periods are restated. On balance, however, the Board believes that the risk of potential confusion to users arising from restatement is outweighed by the benefit to users of enhanced information on the ongoing operations of the entity.

BC49 In terms of the timing of classifying an operation as discontinued, the Board considered whether more useful information is provided by making the classification conditional upon a firm decision to discontinue an operation (the current IAS 35 approach) or conditional upon the classification of an operation as held for sale.

BC50 The Board agreed that, to be consistent with the presentation of assets held for disposal and in the interests of convergence, an operation should be classified as discontinued when it is disposed of or classified as held for sale.

BC51 IAS 35 also adopts a different approach from US GAAP when criteria for classification as discontinued are met after the period-end but before the financial statements are issued. Under SFAS 144, some disclosure is required; however, the component is *not* presented as a discontinued operation. Under IAS 35, the component is classified as discontinuing.

BC52 The Board believes that, if more restrictive criteria are specified for determining when a component has been discontinued, it would be inconsistent to apply retroactively a classification that did not apply at the period-end.

Presentation of discontinued operations

BC53 Under SFAS 144, the results of a discontinued operation are presented as a separate component in the income statement (net of income tax) for all periods presented.

BC54 Under IAS 35, the results of a discontinuing operation are not presented as a net amount on the face of the income statement. Instead, specified items are disclosed either in the notes or on the face of the income statement.

BC55 In its project on reporting comprehensive income, the Board is considering the presentation of discontinued operations in the income statement. It does not wish to prejudge the outcome of that project by changing the requirements of IAS 35 in respect of the components to be disclosed. It agrees, however, that disclosure on the face of the income statement is desirable because of the prominence given to information about continuing and discontinued operations. The draft IFRS therefore brings forward unchanged the requirements of IAS 35 regarding the items to be disclosed for discontinued operations but requires some of those items to be presented on the face of the income statement.

Terminology

BC56 Two issues of terminology arose in developing the draft IFRS:

(a) the use of the term ‘probable’ and

(b) the use of the term ‘fair value less costs to sell’.

BC57 In SFAS 144, the term *probable* is described as referring to a future sale that is ‘likely to occur’. For the purposes of IFRSs, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* defines ‘probable’ as meaning ‘more likely than not’ and ED 3 *Business Combinations* proposes extending that definition to all IFRSs. To converge on the same meaning as SFAS 144 and to avoid using the term ‘probable’ with different meanings in IFRSs, the draft IFRS uses the phrase ‘highly probable’. The Board regards ‘highly probable’ as implying a significantly higher probability than ‘more likely than not’ and as implying the same probability as the FASB’s phrase ‘likely to occur’.

BC58 The measurement basis ‘fair value less costs to sell’ used in SFAS 144 is the same as the measurement ‘net selling price’ used in IAS 36. SFAS 144 defines fair value of an asset as the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale, and costs to sell as the incremental direct costs to transact a sale, that is, the costs that result directly from and are essential to a sale transaction and that would not have been incurred by the entity had the decision to sell not been made. IAS 36 defines net selling price as the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expenses.

BC59 The Board considered using the phrase 'net selling price' to be consistent with IAS 36. However, it noted that 'fair value' is used in many IFRSs. The Board concluded that it would be preferable to use the same phrase as is used in SFAS 144 so that it is clear that convergence on this point had been achieved and to amend IAS 36 so that the terminology in IAS 36 is consistent with other IFRSs. Therefore, a consequential amendment proposed by this draft IFRS is to replace 'net selling price' with 'fair value less costs to sell' throughout IAS 36.

Appendix A

Alternative views on ED 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations*

AV1 Two Board members voted against the publication of ED 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations.* Their alternative views are set out below.

Alternative view of the first Board member

AV2 The first Board member voted against the publication of ED 4 on the following grounds:

(a) measurement of assets should not be based on management intent;

(b) in particular, depreciation/amortisation of non-current assets that are still in active use should not cease only because management intends to sell these assets;

(c) the IASB should not develop detailed rule-based Standards.

AV3 The proposed classification 'held for sale' and resulting measurement of assets (or disposal groups) so classified is based on management intent and demands detailed (anti-abuse) rules to define the classification and to fix the time boundaries during which an asset (or disposal group) can remain within the classification. The final result is, in the Board member's view, an excessively detailed and rule-based Standard.

AV4 This Board member further believes that not depreciating/amortising assets classified as held for sale would be especially problematic for disposal groups because such groups might correspond to important parts of a business, such as a division or a whole segment. The Board member does not accept that remeasurement at the lower of carrying amount and fair value less costs to sell acts as a proxy for depreciation because, sometimes at least, the fair value less costs to sell will be higher than the carrying amount. Again, this is particularly the case for disposal groups that correspond to divisions or segments, as the fair value of such disposal groups will often reflect internally generated goodwill. Under the proposals in the draft IFRS, non-current assets in such disposal groups will simply remain at their carrying amounts even though they are still actively used. The Board member believes that it is conceptually wrong to cease depreciation/amortisation while such assets are still in active use, which under the draft IFRS could be for a prolonged period of time, up to one year or even longer under special circumstances.

AV5 The Board member believes that a more simple and straightforward solution is possible by creating a special category of non-current assets retired from active use. This would have the following advantages:

- the concept of retired from active use would be simple to apply
- management intent would be removed from the proposals
- classification would equally apply to any form of disposal (sale, abandonment, exchange, spin-off, etc)
- no detailed (anti-abuse) rules would be necessary
- no illustrations would be necessary
- the IFRS would be simple and based on a clear and unambiguous principle.

AV6 In order to provide information of intended sales of non-current assets (which is especially important for planned disposals of components (ie future discontinued operations)), the Board member would propose disclosure requirements that would take effect as soon as such assets are likely to be sold, even if they are still in active use.

AV7 The Board member agrees with the proposed measurement requirements of paragraph 8 (but for assets retired from active use), the consequential accounting of paragraph 18 when such assets are put into active use again and the presentation of discontinued operations as set out in paragraph 24, except for the requirement for some of the disclosures to be presented on the face of the income statement.

AV8 The Board member accepts that full convergence with US GAAP (SFAS 144) would not be achieved under the Board member's preferred approach. However, the Board member would prefer a simple and clear accounting solution.

Alternative view of the second Board member

AV9 The second Board member believes that it is inappropriate to cease depreciation of assets that are still in use. This Board member also believes that a separate classification 'non-current assets retired from active use' would draw a more appropriate and objective distinction than the classification 'held for sale'.

Appendix B
Tables of concordance

The following table shows the paragraphs in SFAS 144 that were the source of the paragraphs in the draft IFRS.

Paragraph in draft IFRS		**Paragraph in SFAS 144**
1	Objective	1 and 2
2	Scope	3 and 5
3	Disposal groups	4
4	Held for sale principle	30
5	Reference to Appendix B	*No equivalent paragraph*
6	Assets to be abandoned	27
7	Assets to be abandoned	28
8	Measurement principle	34
9	Application to newly acquired assets	34
10	Discounting costs to sell	35
11	Carrying value of other assets	36
12	Recognition of impairment loss	37
13	Revalued assets	*No equivalent paragraph*
14	Allocation of impairment loss	37
15	Gain on loss from sale	37
16	Non-depreciation	34
17	Change in classification as held for sale	38
18	Measurement on reclassification	38
19	Presentation of reclassification adjustment	39
20	Removal of item from disposal group	40
21	Presentation and disclosure principle	*No equivalent paragraph*
22	Definition of a component	41
23	Definition of a discontinued operation	42
24	Disclosures for discontinued operations	43
25	Adjustments to amounts reported in discontinued operations	44
26	Change in classification as discontinued operation	39

Paragraph in draft IFRS		Paragraph in SFAS 144
27	Disposal of assets in continuing operations	45
28	Presentation of assets held for sale	46
29	Additional disclosures	47
30	Additional disclosures	48
31	Effective date	49-51
B1	Held for sale criteria	30
B2	Criteria for exception	31
B3	Classification of newly acquired assets	32
B4	Classification after the balance sheet date	33
B5-B8	Revalued assets	*No equivalent paragraph*

The following table shows where the relevant requirements of SFAS 144 can be found in the draft IFRS.

Paragraph in SFAS 144		Paragraph in draft IFRS
3	Scope	2
4	Disposal groups	3 and Appendix A
5	Exceptions to scope	2
27	Disposal other than by sale	6
28	Assets to be abandoned	6 and 7
29	Assets to be exchanged or distributed to owners	*Assets to be exchanged are treated as assets to be sold (see paragraph 5 of the draft IFRS).*
30	Criteria for classification as held for sale	4 and B1
31	Exception to one of the criteria in paragraph 30	B2
32	Classification of newly acquired assets	B3
33	Classification after the balance sheet date	B4
34	Measurement of assets held for sale	8,9 and 16
35	Costs to sell	Appendix A and 10
36	Carrying value of other assets	11
37	Impairment loss	12 and 14
38	Change in classification	17 and 18
39	Presentation of change in classification	19 and 26

Paragraph in SFAS 144		Paragraph in draft IFRS
40	Removal of items from disposal group	20
41	Definition of a component	Appendix A and 22
42	Definition of discontinued operations	23
43	Presentation of discontinued operations	24
44	Adjustment to amounts reported in discontinued operations	25
45	Disposal gains and losses in continuing operations	27
46	Presentation of assets classified as held for sale	28
47	Disclosures	29
48	Disclosure of change of plan	30
49-51	Effective date and transition	31