UNICE
THE VOICE OF BUSINESS IN EUROPE

3 October 2003

Mr Johan van Helleman
Chairman
EFRAG
41 Avenue des Arts
1040 Bruxelles

Dear Mr Van Helleman,

RE: Exposure draft ED 4 : Disposal of Non-Current Assets and Presentation of Discontinued Operations

UNICE has read attentively the above-mentioned exposure draft and would like to offer the following comments.

Attempts at greater convergence with US-GAAP are an effort that UNICE members truly welcome. Likewise, reflecting management's intent in the accounts, in our view, produces more relevant and more useful information to users of financial statements.

However, UNICE members cannot support the issuance of a standard based on this exposure draft. The requirements related to classification, measurement and discontinued operations do indeed cause a great deal of concern.

1- Classification of assets held for sale

The criteria set out in Appendix B appear to be very prescriptive and hence far away from what a principle-based standard should be. In UNICE's view, assets should be classified as held for sale as soon as, and only if, a sale is highly probable. All other criteria listed in Appendix B substantiate the requirements of high probability and should be there to illustrate circumstances that make a sale highly probable.

UNICE also feels that there is no need for an arbitrary 12-month limit. However it should be requested that any sale intent whose outcome is estimated to occur at a later date is duly documented and explained in the notes.

2- Measurement of assets held for sale

UNICE does not believe that assets held for sale need specific measurement requirements. Present requirements in IAS 16, IAS 38 and IAS 36 are fully appropriate.

UNICE is of the strong opinion that depreciation should not cease when assets are still in active use. Depreciation should cease only when an asset or group of assets is withdrawn from active use. According to IAS 16 and IAS 38, the sale decision may have an impact on the useful life of the asset. According to IAS 36, the sale decision is an indicator that the asset may be impaired and hence calls for an immediate impairment test.

3- Discontinued operations

UNICE disagrees with the fact that the definition of a "component" constitutes any improvement in the current definition and criteria for discontinued operations in the present IAS 35.

Separating out discontinued operations is designed to enhance the income statement's predictive value. Discontinued operations should therefore be defined as significant changes in scope of operations, such as to influence the sensitivity of the entity to external economic segmental factors. Discontinued operations should result from strategic decisions only, whereas disposal groups that fit the component definition may arise from rationalisation and cost-cutting decisions.

We therefore believe that a disposal group qualifies as discontinued operations only if it meets the IAS 35 §2 b) criterion, that is if it "represents a separate major line of business or geographical area of operations".

Otherwise, separating income from discontinued operations would lose significance and relevance to the user of financial statements. Discontinued operations would indeed be reported quite frequently, if not in every single reporting period, even when the scope of the entity's operations is not significantly changed in business terms. This would also result in a heavy burden of restatements of all previous periods presented for the entity. At the same time it would cause a loss of relevance to the users.

In order to promote greater readability of the income statement, UNICE recommends that discontinued operations be reported, post tax, on a single line. Detailed items of income and expenditure related to discontinued operations would be provided in the notes.

We hope that the above-mentioned concerns will be taken into account in your discussions on the matter and remain at your full disposal to discuss it further.

Yours sincerely,

(original signed by)
Jérôme P. Chauvin
Director, Company Affairs Department