



香港會計師公會

HONG KONG SOCIETY OF ACCOUNTANTS

Incorporated by the Professional Accountants Ordinance, Cap. 50

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To: News/Business Editor
(For IMMEDIATE RELEASE)

20 August 2003

Proposals on asset disposals and discontinued operations

The Hong Kong Society of Accountants (HKSA) Financial Accounting Standards Committee (FASC) has issued an Invitation to Comment on an Exposure Draft ED 4, Disposal of Non-current Assets and Presentation of Discontinued Operations, issued by the International Accounting Standards Board (IASB). Comments are requested to be received by 30 September 2003.

ED 4 is the first IASB exposure draft issued as part of the short-term IFRS-US GAAP convergence project being undertaken jointly by the IASB and the United States Financial Accounting Standards Board (FASB). The Exposure Draft proposes that assets that are expected to be sold and meet specific criteria should be measured at the lower of carrying amount and fair value less costs to sell, should not be depreciated and should be presented separately in the balance sheet. It also proposes that any operation with separately identifiable cash flows should be classified as 'discontinued' once the assets involved in the operation meet the criteria to be classified as held for sale, the cash flows of the operation will be eliminated from the ongoing operations of the entity and there will be no continuing involvement in the operation after its disposal. These proposals, when implemented, would achieve convergence between the IASB's standards and the equivalent requirements in US GAAP.

Introducing the Invitation to Comment, Mr. Roger Best, FASC Chairman, commented,

"We are delighted to see that the IASB and FASB are both committed to their work towards the goal of a single set of global accounting standards. With our policy to converge Hong Kong Financial Reporting Standards with the IASB's Standards, ED 4 would bring the Hong Kong Standards, IASB's Standards and US GAAP one step closer with each other."

"ED 4 proposes to replace IAS 35, Discontinuing Operations. Even though IAS 35 was only adopted in Hong Kong in late 2001 and adopting ED 4 would cause an accelerated rate of change in practice in Hong Kong, with Hong Kong's place in the global economy, we believe it is important that the development of Hong Kong's financial reporting standards should keep pace with the international developments."

Following from the IASB's final approved Standard, the FASC intends to recommend the adoption of a new Hong Kong Financial Reporting Standard (HKFRS) so that HKFRSs maintain conformity with the IASB's standards.

The FASC will not issue a specific Hong Kong exposure draft on the matters covered in the IASB exposure draft unless any changes made by the IASB to the exposure draft are so significant as to warrant in the opinion of the FASC, seeking further comment.

A copy [and a Chinese translation] of the IASB's press release, which has a summary of the main proposals under ED4, is attached for your reference. A copy of the HKSA's Invitation to Comment on the exposure draft and a copy of the IASB's exposure draft can be found on-line at <http://www.hksa.org.hk/professionaltechnical/accounting/exposedraft/>.

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Issued by the HKSA. The HKSA is the only statutory licensing body of accountants in Hong Kong responsible for the regulation of the accounting profession, with over 20,000 members. The HKSA issues on a regular basis Professional Standards on various aspects of accounting practice, and these are required to be observed by professional accountants.

(For further information, please contact Ms. Florence Chan or Ms. Cynthia Lee of the Public Relations section of the HKSA on 2287 7228.)



International Accounting Standards Board®

Press Release

For immediate release

24 July 2003

IASB publishes proposals on asset disposals and discontinued operations

The International Accounting Standards Board (IASB) today published for public comment proposals on reporting asset disposals and discontinued operations. The proposals are set out in Exposure Draft ED 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations*. The IASB invites comments on the Exposure Draft by 24 October 2003.

The proposals are the first to arise from the IASB's joint short-term convergence project with the Financial Accounting Standards Board (FASB) in the US. Convergence of accounting standards around the world is one of the IASB's prime objectives and the project aims to reduce the differences between International Financial Reporting Standards (IFRSs) and US GAAP. The short-term project focuses on differences that are not the subject of major current or planned projects by either board and are thought capable of quick resolution. The first phase of the project involves each board reviewing the other's more recent pronouncements, with an expectation that recent work on an accounting problem will have produced a better solution, with the result that the newer standard would be substituted by the other board for its existing standard.

The Exposure Draft results from the IASB's review of the FASB standard SFAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*, which was issued in 2001. The Exposure Draft proposes that assets that are expected to be sold and meet specific criteria should be measured at the lower of carrying amount and fair value less costs to sell, should not be depreciated and should be presented separately in the balance sheet. It also proposes that any operation with separately identifiable cash flows should be classified as 'discontinued' once the assets involved in the operation meet the criteria to be classified as

held for sale, the cash flows of the operation will be eliminated from the ongoing operations of the entity and there will be no continuing involvement in the operation after its disposal. These proposals, when implemented, would achieve convergence with the equivalent requirements in US GAAP.

During the second half of the year, the FASB and the IASB each expect to release proposals aimed at removing differences between their standards. The FASB is planning to release in the third quarter an exposure draft that will attempt to bring US GAAP into line with IFRSs on a number of issues. These are expected to include the classification of liabilities as current or non-current, the measurement of asset exchanges, the treatment of changes in accounting policies and estimates, and certain issues related to the measurement of inventories and to the calculation of earnings per share. The IASB expects to publish later this year further exposure drafts proposing to bring the treatment of restructuring costs and termination benefits into line with the equivalent US requirements. The two boards will also meet on 23 October in Toronto, Canada, where they will discuss the progress of the convergence initiative, among other topics.

The two boards are also committed to completing the remainder of the short-term project as soon as possible. This will involve looking together at areas where there are differences between IFRSs and US GAAP, in particular income taxes, research and development, and interim reporting. In the longer term, the boards will continue to coordinate their agendas so that major new issues will be addressed jointly, with a view to developing a common solution.

Introducing the Exposure Draft, Sir David Tweedie, IASB Chairman, said:

‘The release of this Exposure Draft demonstrates the commitment by both the FASB and the IASB to work towards the goal of a single set of global accounting standards. We are now beginning to narrow the existing differences between US GAAP and IFRSs. The convergence initiative has made rapid progress, and in the coming months we shall see the FASB making changes in its standards as well, bringing the US into line with international practice. In the future, we hope to arrive together at common solutions so that new differences do not arise to replace those that we are currently working to eliminate.’

For more information regarding short-term convergence project, please see the IASB's Website (www.iasb.org.uk) and the FASB's Website (www.fasb.org).

Copies of ED 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations* (ISBN 1-904230-23-7) (three-part set) are available, at £15 each (€ 24/US\$23) including postage, from: IASCF Publications Department, 1st Floor, 30 Cannon Street, London EC4M 6XH, United Kingdom. Tel: +44 (0)20 7332 2730, Fax: +44 (0)20 7332 2749 Email: publications@iasb.org.uk Web: www.iasb.org.uk

Subscribers to the IASB's Comprehensive Subscription Service can view ED 4 from the secure online services area of the IASB's Website. From 4 August the complete text of the Exposure Draft will be freely available from the Website.

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NOTES TO EDITORS

About ED 4

- 1 ED 4 proposes:
 - a classification for non-current assets 'held for sale' using the same criteria as those contained in SFAS 144
 - the concept of a disposal group
 - that assets or disposal groups that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell
 - that an asset classified as held for sale, or included within a disposal group that is classified as held for sale, is not depreciated

- that an asset classified as held for sale, and the assets and liabilities included within a disposal group classified as held for sale, are presented separately on the face of the balance sheet
 - the withdrawal of IAS 35 *Discontinuing Operations*, replacing it with requirements that:
 - change the definition of a discontinued operation from a separate major line of business or geographical area to any unit whose operations and cash flows can be clearly distinguished operationally and for financial reporting purposes.
 - change the timing of the classification as a discontinued operation. IAS 35 classifies an operation as discontinuing at 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. ED 4 classifies an operation as discontinued at the date the entity has actually disposed of the operation, or when the operation meets the criteria to be classified as held for sale.
 - present the results of discontinued operations separately on the face of the income statement.
 - prohibit the retroactive classification as a discontinued operation, when the discontinued criteria are met after the balance sheet date.
- 2 The draft IFRS published in ED 4 is accompanied by two separate booklets. The first contains the Basis for Conclusions, which sets out the IASB's reasoning behind its proposals, and the second consists of illustrative examples.

About the IASB

- 3 The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) reside in nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.
- 4 At present, some 35 countries require the use of international standards for all domestic listed companies, six other countries require the use of international standards for some companies, and many countries base their national practices on international standards. In 2002, several jurisdictions, including Australia, the European Union, and Russia, announced that they would require international standards on or before 1 January 2005. In September 2002, the IASB and its US counterpart, the Financial Accounting Standards Board (FASB), reached an agreement to work towards the convergence of existing US and international practices and the joint development of future standards.

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