



Mr Bruce Porter  
 Acting Chairman  
 Australian Accounting Standards Board  
 PO Box 204,  
 Collins Street  
 WEST VICTORIA 8007  
 By Email: [standard@asb.gov.au](mailto:standard@asb.gov.au)

Grant Thornton Australia Limited  
 ABN 41 127 556 389

Level 17, 383 Kent Street  
 Sydney NSW 2000  
 PO Locked Bag Q800  
 QVB Post Office  
 Sydney NSW 1230

T +61 2 8297 2400  
 F +61 2 9299 4445  
 E [info@gtsw.com.au](mailto:info@gtsw.com.au)  
 W [www.granthornton.com.au](http://www.granthornton.com.au)

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Dear Bruce

### **ED 167 Discontinued Operations - Proposed Amendments to IFRS 5**

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on Exposure Draft ED 167 which is a re-badged copy of the International Accounting Standards Board's Exposure Draft Discontinued Operations - Proposed Amendments to IFRS 5 (the ED). Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies and businesses. This submission has benefited with input from our clients, Grant Thornton International which will be finalising a global submission to the IASB, and discussions with key constituents.

We support the proposals in the ED. Eliminating the difference between the definition of discontinued operations under IFRS and under US GAAP is important in terms of continuing the convergence efforts of the Board and the Financial Accounting Standards Board (FASB) and is to be welcomed.

Our responses to the specific questions raised in the ED are detailed in the attached Appendix. If you require any further information or comment, please contact me.

Yours sincerely  
 GRANT THORNTON AUSTRALIA LIMITED

Keith Reilly  
 National Head of Professional Standards

# Appendix 1: Responses to Exposure Draft Questions-

## **ED 167 Discontinued Operations - Proposed Amendments to IFRS 5**

### **Question 1 - Definition of discontinued operations**

**Question 1(a) - Do you agree with the proposed definition? Why or why not? If not, what definition would you propose, and why?**

We agree with the proposed definition.

There are two parts to the proposed definition. The first part of the proposed definition uses an operating segment as defined in IFRS 8 as the criterion to determine whether a component of an entity should be presented in discontinued operations. We agree that disposal of an operating segment is likely to indicate a strategic shift in an entity's operations and should therefore be included in the definition of discontinued operations.

The second part of the definition proposes that businesses that meet the criteria to be classified as held for sale on acquisition should be presented in discontinued operations. This is a change from the current definition, which refers to a subsidiary acquired exclusively with a view to resale. We agree that the definition should refer to a business as all acquisitions of businesses face the same presentation issues regardless of the legal form of the entity.

**Question 1(b) - If an entity is not required to apply IFRS 8, is it feasible for the entity to determine whether the component of an entity meets the definition of an operating segment? Why or why not? If not, what definition would you propose for an entity that is not required to apply IFRS 8, and why?**

The proposed definition of discontinued operations will necessitate more work for those entities that are not required to apply IFRS 8 and is therefore likely to increase their costs of preparing their financial statements. This does not mean that it is infeasible for those entities to determine whether the component of an entity meets the definition of an operating segment however.

In particular, it should be relatively easy for those entities that recognise goodwill to determine whether a component meets the definition of an operating segment, as they should already have considered identifying operating segments under IFRS 8 as part of the process of allocating goodwill to cash-generating units under IAS 36 *Impairment of Assets*. The increase in costs for those entities should not be excessive then.

For those entities that do not recognise goodwill and have not therefore needed to consider operating segments before, the costs will be greater. It should however still be feasible for those entities to determine whether the component of an entity meets the definition of an operating segment using the guidelines set out in IFRS 8.5-8.10 despite not having the same degree of formality in their internal reporting procedures as those entities that fall within the scope of IFRS 8. IFRS 8.7 for example notes that "the term 'chief operating decision maker' identifies a function, not necessarily a manager with a specific title". Similarly, IFRS 8.9 states that "the term 'segment manager' identifies a function, not necessarily a manager with a specific title".

Overall, we believe that it is feasible for entities not required to apply IFRS 8 to determine whether the component of an entity meets the definition of an operating segment, and that the overall benefits to be derived from increased convergence with US GAAP and consistency with other IFRSs outweigh the additional costs that will be incurred.

### **Question 2 – Amounts presented for discontinued operations**

**Do you agree that the amounts presented for discontinued operations should be based on the amounts presented in the statement of comprehensive income? Why or why not? If not, what amounts should be presented, and why?**

We agree with the proposal. We believe that it is more important for amounts presented for discontinued operations to be based on the amounts in the statement of comprehensive income than on the amounts in the segmental information note.

### **Question 3 - Disclosures for all components of an entity that have been disposed of or are classified as held for sale**

**Question 3(a) - Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes would you propose, and why?**

We agree with the proposed disclosure requirements although we have some concern that the requirement to make disclosures relating to all components of an entity that have been disposed of or are classified as held for sale may result in information that is excessively detailed.

In BC8 to the ED, the Board notes that US GAAP users find information provided for each component of an entity to be useful in analysing the financial statements of an entity. We question whether this is the view of all US GAAP users or a more narrow sub-category of users whose job it is to analyse financial statements in a professional capacity. There has been a marked increase in the length of financial statements in recent years, and we believe that producing ever more detailed and lengthy disclosures may actually serve to obscure the most important aspects of financial performance from those users who are not analysing information in a professional capacity. We note that the Board is currently undertaking a project aimed at reducing the complexity of reporting financial instruments; we believe that reducing complexity is worth considering when developing any proposal and are concerned that the ED's proposals for disclosures related to all components may actually increase complexity.

Having said this, we understand that this project is being jointly undertaken with the FASB and that the FASB agreed with the proposed definition of discontinued operations as long as disclosures related to all components of an entity that have been disposed of or are classified as held for sale would be required. As noted in the introduction to our letter, we believe that the elimination of the difference between the definition of discontinued

operations under IFRS and under US GAAP is an important objective in terms of continuing the convergence efforts of the Board. We therefore support the proposed disclosures in the interests of convergence.

**Question 3(b) - Do you agree with the disclosure exemptions for businesses that meet the criteria to be classified as held for sale on acquisition? Why or why not? If not, what changes would you propose, and why?**

We agree with the disclosure exemptions.

The current version of IFRS 5 exempts subsidiaries held for sale on acquisition from providing disclosures relating to the major classes of assets and liabilities classified as held for sale. The logic behind this exemption was that requiring the note disclosures could have required entities to obtain significantly more information in relation to such subsidiaries.

We believe that this logic is equally applicable to all types of businesses that meet the criteria to be classified as held for sale on acquisition. We therefore agree with the disclosure exemptions.

**Question 4 - Effective date and transition**

**Are the transitional provisions appropriate? Why or why not? If not, what would you propose, and why?**

We agree that entities may face difficulties in obtaining the information to apply the proposed amendments retrospectively for the note disclosures. This will be especially true for those entities that are not required to comply with IFRS 8. We therefore support prospective application of the proposed amendments.

### **Specific AASB Questions**

**a Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**

- i not-for-profit entities;**
- ii public sector entities;**

Apart from our earlier comments, we are not aware of any regulatory issues that may effect the implementation of the proposals

**b whether overall, the proposals would result in financial statements that would be useful to users;**

Apart from our earlier comments, we believe that the proposals will result in financial statements that would be useful to users

**c whether the proposals are in the best interests of the Australian economy.**

Apart from our earlier comments, we believe that the proposals are in the best interests of the Australian economy.