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Bruce Porter
Acting Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

28 January 2009

Dear Bruce

Exposure Drafts ED 167, ED 168 and ED 172

I am enclosing copies of the PricewaterhouseCoopers responses to the following International Accounting Standards Board's Exposure Drafts:

- *Discontinued Operations: Proposed amendments to IFRS 5*
- *Additional Exemptions for First-time Adopters: Proposed amendments to IFRS 1*, and
- *Embedded Derivatives (Proposed Amendments to IFRIC 9 and IAS 39).*

The letters reflect the views of the PricewaterhouseCoopers network of firms and as such include our own comments on the matters raised in the Exposure Drafts.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 if you would like to discuss this further.

Yours sincerely

Jan McCahey

Jan McCahey
Partner
Assurance

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21 January 2009

Exposure draft: Discontinued Operations, Proposed amendments to IFRS 5

Dear Sir David,

We are responding to your invitation to comment on the above exposure draft, published in September 2008, on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the exposure draft. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support convergence on a single high quality answer in the area of discontinued operations for IFRS and US GAAP. However, we do not believe that the proposals will achieve a high quality outcome.

Our specific concerns with the proposals are as follows:

- We disagree with the level at which disposal activities are classified as discontinued operations,
- We believe that the proposed disclosure requirements for disposals below the level an entity reports discontinued operations may be onerous and
- We believe the costs of retrospective application will outweigh any benefits.

Definition of discontinued operations

We agree with comments from users that disposal activities should be presented as discontinued operations only when an entity has made a strategic shift in its operations. However, restricting discontinued operations presentation only to components that meet the definition of an operating segment in IFRS 8, *Operating Segments* (IFRS 8) will not result in all disposals that represent a strategic shift in operations being presented as a discontinued operation. An operating segment may well be larger or smaller than a component of an entity whose disposal would amount to a strategic shift. For example, the disposal of a component that represents a major geographical area may represent a strategic shift but would not necessarily have been reported as an operating segment.

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Management should be able to apply judgment in their determination of whether a disposal activity represents a discontinued operation. That judgment should centre around whether an entity has made a strategic shift in its operations. The standard should define a discontinued operation as a component of an entity that has been disposed of or is held for sale and represents a strategic shift in operations.

All companies will need to apply judgment in determining whether a disposal represents a strategic shift in operations. We suggest that the standard include, as an indicator, that the disposal of a component of a business that is reviewed regularly by management for the purpose of goodwill impairment testing would represent a strategic shift in operations. The level at which goodwill is tested for impairment reflects the way in which an entity manages its operations, even if the operations do not qualify as an operating segment under IFRS 8.

Disclosures and transition provisions

We disagree with proposed additional disclosures for disposals that do not rise to the level of discontinued operations. Disclosure of these disposals may be an onerous requirement. Users of financial statements would not benefit from yet another level of disclosures for disposals that not meet the criteria for discontinued operations .

Retrospective application of the proposed ED may be challenging, and not cost beneficial. We recommend that the amendments to the standard be applied prospectively.

Our responses to the specific questions posed by the Board are included as an Appendix.

If you have any questions in relation to this letter please do not hesitate to contact Richard Keys, PwC Global Chief Accountant (+44 20 7212 4555), or Mary Dolson (+44 20 7804 2930).

Yours sincerely,

PricewaterhouseCoopers

PricewaterhouseCoopers LLP

Enclosure

PRICEWATERHOUSECOOPERS

Appendix - Detailed responses

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

Response: We disagree with the proposed definition. We believe that discontinued operations should include all components of an entity that have been disposed or that are held for sale where the disposal represents a strategic shift in operations. The disposal of a component of a business that is reviewed regularly by management for the purpose of goodwill impairment testing may well represent an indicator of a strategic shift in operations.

In IFRS, goodwill is tested for impairment as part of a cash generating unit. Each unit or group of units to which goodwill is allocated must represent the lowest level at which goodwill is monitored for internal management purposes and must not be larger than an operating segment as defined by IFRS 8. Applying the requirements in IAS 36, *Impairment of Assets,* results in goodwill being tested for impairment at a level that reflects the way an entity manages its operations.

In US GAAP, goodwill is tested for impairment at the reporting unit level. A component of an operating segment is required to be identified as a reporting unit if the component is a business for which discrete financial information is available and segment management regularly reviews the operating results. The reporting unit is the level of internal reporting that reflects the way an entity manages its business or operations.

Although the guidance for goodwill impairment testing is different under IFRS and US GAAP, the level at which goodwill is tested for impairment under both frameworks reflects the way in which an entity manages its operations. The way in which an entity manages its operations is often indicative of whether disposals are strategic shifts in an entity's operations that should be reflected as discontinued operations.

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?

Response: We believe it is feasible for an entity that is not required to apply IFRS 8 to determine whether the component of an entity meets the definition of an operating segment. However, under our proposed approach, this would not be necessary - instead the entity would have to consider whether the disposal represented a strategic shift in operations.

Question 2*—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?*

Response: We believe that the amounts presented for discontinued operations should be based on the amounts presented in the statement of comprehensive income. The objective to provide users with information about the different cash flows expected to arise from continuing operations and discontinued operations is best achieved if the amounts are determined in accordance with those IFRSs used to determine the amounts presented in the statement of comprehensive income.

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

Response: We disagree with the proposed disclosure requirements. We believe the framework for disclosing disposal activities should be consistent with the framework for reporting discontinued operations. We agree with the observation from users described in the basis for conclusions that disposal activities should be presented as discontinued operations only when an entity has made a strategic shift in its operations. Users would likely benefit from an optimal level of disclosures for discontinued operations that mirrors the level of reporting in the primary set of financial statements. These disclosures should be limited to components that meet the definition of discontinued operations.

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?*

Response: We agree with the disclosure exemptions for businesses that meet the criteria as held for sale on acquisition for the reasons outlined in the ED.

Question 4—*Are the transitional provisions appropriate? Why or why not? If not, what would you propose, and why?*

Response: Regardless of the Board's final decision regarding the definition of discontinued operations, we believe that prospective application is appropriate for both disclosures in the notes and amounts presented in the statement of comprehensive income (or in the separate income statement). We believe that retrospective application may be challenging and therefore recommend that the ED be applied prospectively. We believe that information necessary to carve-out discontinued operations that did not previously meet the definition of a discontinued operation may be difficult to obtain and result in significant increased costs for the issuer.