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Ms Anne McGeachin
Senior Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Dear Ms McGeachin

Exposure Draft Discontinued Operations: Proposed amendments to IFRS 5

The Australian Accounting Standards Board (AASB) is pleased to submit its comments on the Exposure Draft *Discontinued Operations: Proposed amendments to IFRS 5*. In formulating these comments, the AASB has considered the views of Australian constituents.

Although the AASB is supportive of the convergence of IASB and FASB standards, the AASB is of the opinion that the proposed definition of discontinued operations does not improve current requirements. The AASB is concerned that increasing the level at which a discontinued operation is identified to an operating segment means that certain significant discontinued activities may be omitted from the 'discontinued operations' category.

The AASB's detailed responses to the specific questions accompanying the Exposure Draft are attached.

If you have any queries regarding this submission, please contact Raymond Yu (ryu@asab.gov.au) or me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Bruce Porter'.

Bruce Porter
Acting Chairman

Exposure Draft *Discontinued Operations: Proposed amendments to IFRS 5*

Specific comments

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?

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?

Question 1(a)

Whilst the AASB supports the convergence of IASB and FASB standards, it disagrees with the proposals on the basis that the proposals do not improve current requirements relating to discontinued operations. Increasing the level at which a discontinued operation is identified to an operating segment means that certain significant discontinued activities will be omitted from the ‘discontinued operations’ category (for example, there may be significant geographic activities that are discontinued that might be at a lower level than an operating segment). This could adversely affect users ability to make predictions about an entity’s future operations based on information recognised in the financial statements.

In the event that the IASB proceeds with the proposals, the AASB makes some suggestions for improvements in the following.

The AASB thinks that the reasoning given in paragraph BC7 needs to be strengthened. The reasons for utilising operating segment for the proposed definition are as follows (replicated from paragraph BC7 with AASB’s comments below each reason):

- (a) *Some users of financial statements have indicated that a disposal activity should be presented as a discontinued operation only when an entity has made a strategic shift in its operations. Because the determination of operating segments is based on how the chief operating decision maker makes decisions about allocating resources and assessing performance, disposal of an operating segment would most likely indicate a strategic shift in an entity’s operations.*

The linkage of ‘discontinued operations’ to ‘operating segments’ through ‘strategic shift in an entity’s operations’ is tenuous. For example, discontinuing the production of Product A in Country A and continuing production for Product A in other countries does not necessarily mean a strategic shift in operations.

- (b) *A definition that refers to a ‘major line of business’ and ‘geographical area’ could be subjective.*

Subjectivity in the application of accounting standards cannot be avoided. Determining an operating segment can be subjective as well.

- (c) *Entities within the scope of IFRS 8 and SFAS 131 already need to identify their operating segments. Therefore, using operating segments as the criterion would simplify the determination of what should be presented in discontinued operations. Moreover, IFRS 8 and SFAS 131 have a common definition of operating segments.*

Many entities adopting IFRSs are not subject to IFRS 8 and therefore many entities would need to familiarise themselves with IFRS 8 notions despite it not being directly applicable to them. A suggestion for strengthening this reasoning is noted in the AASB's comments under Question 1(b).

Further in relation to paragraph BC7(a), that paragraph notes that the definition of discontinued operations should be based on strategic shifts in an entity's operations from a 'through the eyes of management' perspective. However, as noted above, it is questionable whether 'operating segments' as defined in IFRS 8 has a sufficient nexus to strategic shifts. Accordingly, the definition could instead be developed from first principles along the following lines:

“A discontinued operation is a component of an entity that as a result of a strategic shift in the entity's operations implemented by the entity's chief operating decision maker either has been disposed of or is classified as held for sale.”

The AASB thinks there might be merit in such a first-principles approach if the IASB proceeds with the proposal to amend the definition of 'discontinued operations'.

Question 1(b)

The AASB is of the view that it is feasible for an entity that is not required to apply IFRS 8 to determine whether a component meets the definition of an operating segment. The AASB notes that an entity that is not required to apply IFRS 8 but has to determine whether a component meets the definition of an operating segment is not unprecedented. IAS 36 *Impairment of Assets* requires an entity to determine that a cash generating unit is not larger than an 'operating segment' as defined in IFRS 8 for the purposes of impairment testing of goodwill acquired in a business combination (IAS 36.80).

The AASB also notes that, on the conclusion of the *IFRS for Private Entities* project, the IASB intends to extend the scope of IFRS 8 to all entities that have public accountability (IFRS 8.BC18), which will result in more entities applying IFRS 8.

Question 2 – Amounts presented for discontinued 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?

The AASB agrees with the proposal, noting that the operating segment criterion is a classification criterion and not a recognition or measurement criterion.

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?

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?

Question 3(a)

Subject to the AASB's earlier comments in Question 1(a), which fundamentally question the merits of the proposals to amend the definition of 'discontinued operations', the AASB would support the proposed disclosure requirements.

Question 3(b)

The AASB agrees that note disclosures on businesses that meet the criteria to be classified as held for sale on acquisition could be potentially onerous, as alluded to in paragraph BC12. Hence, the AASB supports disclosure exemptions for such businesses, noting that it results in similar treatment between the current and proposed definitions of discontinued operation.

Question 4 – Effective date and transition

Question 4

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

The AASB agrees with the proposed transitional provisions.

Drafting issues

Std/Para.	Current text	Suggestion/comments
IFRS 5.33(b)(i)	... <u>together with major income and expense items constituting that pre-tax profit or loss, including impairments, interest, depreciation and amortisation;</u>	'including' should be changed to 'which may include'. The current sentence structure suggests that impairments, interest, depreciation and amortisation are always major income and expense items (see also IFRS 5.41A(a))
IFRS 5.33(b)(ii)	the related income tax expense <u>related to (i)</u> as required by paragraph 81(h) of IAS 12;	It should be clarified whether ' <u>related to (i)</u> ' refers to (a)(i) or (b)(i)
IFRS 5.33(b)(iii)	the gain or loss recognised on the measurement to ...	It is unclear whether the reference to 'gain or loss' is pre-tax or post-tax? (see also IFRS 5.41A(a))
IFRS 5.33B	... in the notes (see paragraph 33(b)), ...	A cross reference to paragraph 33(b)(i) would be more helpful.
IFRS 5 Example 13	ie	'assumed to be' should be used instead of 'ie' to replace 'say'
IFRS 5 Example 13	... The total assets are measured at CU130 + CU35, ie at CU165	'therefore' should be added to read: "The total assets are therefore measured at CU130 + CU35, ie at CU165"

