Accounting Standards Board

Aldwych House, 71-91 Aldwych, London WC2B 4HN
Telephone: 020 7492 2300 Fax: 020 7492 2399
www.frc.org.uk/asb

Stig Enevoldsen
European Financial Reporting Advisory Group
35 Square de Meeûs
B-1000 Brussels
Belgium
Commentletter@efrag.org

14 January 2009

Dear Stig

EFRAG's Draft Comment Letter on the IASB's ED 'Discontinued Operations'

Thank you for providing the Board with the opportunity to comment on your draft response to the International Accounting Standards Board's (IASB) Exposure Draft (ED) 'Discontinued Operations'.

The Board has responded directly to the IASB and a copy of our letter is attached.

Whilst we support the main thrust of EFRAG's proposed response, in our view, it should state more clearly that the proposed changes are unlikely to lead to an improvement in the reporting of discontinued operations. That is, in this instance, convergence with US GAAP has not contributed to the IASB's objective of improving financial reporting. Accordingly, EFRAG should recommend that minimum changes are made to IFRS 5 and that the substantive issues around the presentation of discontinued operations be dealt with as part of the IASB's Financial Statement Presentation Project.

There are some specific points that we have made in response to the questions you have asked of constituents. These are provided in an attachment to this letter.

Should you have any queries regarding our response please contact me, or Mario Abela, Project Director, on +44 207 492 2442 or by email m.abela@frc-asb.org.uk.

Yours sincerely

Ian Mackintosh
Chairman
DDI: 020 7492 2434
Email: i.mackintosh@frc-asb.org.uk

Question 1 – Application of the IFRS 8 definition of a 'segment'

EFRAG has discussed at some length whether, if it is not considered useful for an entity to provide information about its continuing segments (in other words, if it is not necessary for it to comply with IFRS 8), why it should be considered useful for it to provide information about discontinued segments. We would particularly welcome your views on this issue.

ASB Response:

We come at this issue from a slightly different perspective. We would argue in some circumstances a 'segment' is the most meaningful level at which to capture a shift in the strategic direction of a business. However, that will not always be the case. As you note in your example, ceasing operations in particular country may well indicate a 'strategic shift' but not result in an entire segment being discontinued. For that reason we believe that the existing definition of discontinued operation works reasonably well and can be supported by guidance (such as previously contained in IAS 35 'Discontinuing Operations' which made clear that a segment may not always be the appropriate level at which to trigger reporting of a discontinuance).

The Board notes that the notion of a 'strategic shift' is *implied* but is absent from the Standard (as you indicate it is only mentioned in the 'Introduction' to the ED and the 'Basis for Conclusions'). Given the notion of a 'single plan' has been removed, it is our view that the notion of 'strategic shift' is an important one to distinguish a change in operations from other changes to an entity's supply chain (eg decisions to either insource or outsource parts of the production process). We do not believe the latter generally constitutes a 'discontinued operation' because it is not a strategic shift in the business but a means of achieving operational efficiencies.

The proposed definition of discontinued operations relies upon the definition of a 'segment' in IFRS 8 only for determining the trigger point for presentation – this is however obscured by the fact that at paragraph 41A it is proposed that all components should be presented regardless of whether they satisfy the definition. For those reasons, we believe the key point to be made regarding the definition is that (a) it must signal a significant shift in the nature of the business (given the justification for separate presentation is its impact on current and future financial performance); and (b) it should serve as an effective trigger to the presentation of discontinued operations.

Question 2 – Disclosure of components where the definition of 'discontinued operations' is not satisfied

EFRAG debated this issue at some length with some members believing that the notes should deal only with discontinuances presented separately in the income statement and others believing that the notes should also deal with smaller discontinuances. Some EFRAG members favoured that second approach, believing that what users want is information about material discontinuances, of which only the largest will be dealt with by separate presentation. However, the approach proposed by the IASB is neither of those approaches, and is thus in EFRAG's view not compatible with the approach adopted in the income statement. EFRAG also noted that a 'component' as described in the ED could be very small. EFRAG thinks that, in addition to the clutter this might cause, it could also result in some unhelpful disclosures; for example, a company that closes three shops and opens three new shops nearby could be required to provide the disclosures about the three shops closed but not about the ones opened. This is not helpful disclosure. EFRAG would particularly welcome constituent's views on these issues.

ASB Response:

The Board's view is that the presentation requirements for discontinued operations should clearly articulate with the definition. Furthermore, we believe that in most cases discontinued operations are best presented in the notes, consistent with the presentation of segment information, and not separately identified on the face of the financial statements. This would appear to be consistent with the 'cohesiveness' principle in the IASB's recent discussion paper 'Preliminary Views on Financial Statement Presentation'. The IASB states in that paper that "a cohesive picture means that the relationship between items across the financial statements is clear and that an entity's financial statements complement each other as much possible". In our view, providing choices about how discontinued operations are presented in the financial statements and then complicating that picture by also requiring disclosure of 'discontinued' components clouds understandability and fails to satisfy the cohesiveness test.

We agree with the EFRAG view that the notes are meant to amplify the information contained in the primary financial statements. The principle is established in IAS 1 'Presentation of Financial Statements' at paragraph 112 (c) "the notes shall…provide information that is not presented elsewhere in the financial statements, but is relevant to understanding them". The supply of such information is constrained by both materiality and the costs and benefits of providing it. Accordingly, taken together that supports our view that (a) information about discontinued operations should only be presented separately where it qualifies as a discontinuance (thereby satisfying the materiality and cost/benefit constraints) and (b) is more meaningfully disaggregated in the notes because that serves to amplify the implications of a discontinuance on entity's current and future financial performance without undermining the articulation of information across the primary financial statements.

Question 2 (continued)

In our view, these presentation issues go beyond the scope of the proposed amendments to IFRS 5 and should be dealt with more comprehensively as part of the financial statement presentation project.

Accounting Standards Board
Aldwych House, 71-91 Aldwych, London WC2B 4HN
Telephone: 020 7492 2300 Fax: 020 7492 2399
www.frc.org.uk/asb

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

14 January 2009

Dear Sirs

Exposure Draft of proposed amendments to IFRS 5 'Discontinued Operations'

The ASB is responding to the Exposure Draft (ED) 'Discontinued Operations'. The ASB's responses to the questions asked in the ED are set out in an Appendix to this letter.

The ASB does not support the proposed amendments. In our view, the net result of the amendments is to obscure the notion of a discontinued operation under IFRS by narrowing the definition but broadening the disclosure of items that do not satisfy that definition.

We also do not support options in the manner in which information can be presented, as we think this limits its usefulness and comparability for users of the financial statements.

The ASB notes that the proposed amendments to International Financial Reporting Standard (IFRS) 5 'Non-current Assets Held for Sale and Discontinued Operations' are part of the IASB/FASB convergence programme. Whilst we are keen to support the IASB's convergence activities we can only do so where we believe it will lead to an improvement in financial reporting under IFRS. In this instance, the process has not yielded a set of proposals that are likely to lead to an improvement in the reporting of discontinued operations.

Furthermore, consistent with the principles emerging from the IASB's Financial Statement Presentation project, our view is that discontinued operations are better presented in the notes to the financial statements. This will more meaningfully satisfy the 'cohesiveness' principle. These disclosures should also align with the definition of discontinued operations. To that end, we would retain the existing definition of a "discontinued operation" in IFRS 5.

We appreciate the pressures on the IASB to meet its convergence timetable. In that context we think that a constructive way forward would be to amend IFRS 5 to clarify that in most instances a discontinued operation will equate to the discontinuance of a 'segment' as defined in IFRS 8 rather than the much narrower definition proposed in the ED. Similarly, presenting discontinued operations as though they were a segment would be useful for users of the financial statements and would flow logically from the definition. More substantive issues of display should be deferred and addressed more comprehensively as part of the IASB's Financial Statement Presentation Project.

For the reasons set out above, we ask that the IASB reconsider its approach to amending IFRS 5.

In the event that the IASB decides to amend IFRS 5, to assist users and preparers we suggest that any amendments to the Standard are made at the same time it finalises its annual improvements to ensure that there is only one set of revisions to the Standard. This will make it easier to align the date at which any changes to the Standard become effective.

Should you have any queries regarding our response please contact me or Mario Abela, Project Director, on 020 7492 2442 or by email m.abela@frc-asb.org.uk.

Yours sincerely

Ian Mackintosh
Chairman
DDI: 020 7492 2434
Email: i.mackintosh@frc-asb.org.uk

Appendix – Response to Invitation to Comment

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?

ASB response:

Question 1(a)

The ASB does not agree with the proposed definition. In our view, whilst a 'segment' as defined in IFRS 8 'Operating Segments' may sometimes yield the most appropriate unit of account for triggering the separate presentation of discontinued operations that will not always be the case. We are concerned that it obscures an important principle that underpins IFRS 5. The current definition of discontinued operation employs a useful notion about the significance of an operation to the overall business: it requires it to be "a separate major line of business or geographical area" and its discontinuance needs to be "part of a single co-ordinated plan". In summary what is referred to in the Introduction to the ED as a "strategic shift" in the activities of the entity.

Clearly, discontinuing an operating segment indicates a strategic shift, but so too would discontinuing a major line of business even though it only forms part of a segment. Many businesses may only have a small number of segments. For example, a financial institution may have only two segments: 'retail' and 'non-retail'. It may sell off its insurance business in a strategic shift to focus on banking activities. In this case whilst a significant component of the business has been discontinued it would not be captured under the proposed definition where, in our view, this information is relevant to users of the financial statements in understanding the implications of the discontinued activities on the ongoing financial performance of the business.

We would argue that the current unit of account achieved by the existing definition is the right one. The IASB may want to make linkages to the notion of an 'operating segment' but the key point to anchor to is that the discontinued operation represents a 'strategic shift' in the nature and activities of the business where quantitative and qualitative information disclosed in the financial statements should assist users in understanding the impact of those changes on future cash flows.

We refer the IASB to the now withdrawn IAS 35 'Discontinuing Operations' which, in our view, made the points noted above reasonably well.

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?

ASB response:

We do not see the problem in entities applying the definition of an 'operating segment' when they are not ordinarily required to apply the Standard. However, the current drafting is not particularly helpful. It reads as somewhat circular – applying a standard that an entity is not ordinarily expected to apply. Perhaps a more useful approach would be to focus on the concept of an 'operating segment' (rather than the Standard) – the key point being it is a 'through the eyes of management' perspective of the organisation and so it relies on the way information is reported within the entity. The cross-reference to IFRS 8 can then be made to avoid duplicating the requirements of that Standard. These points could be explained in the 'Basis for Conclusions'.

Question 2 – Amounts presented for discontinued operations

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

ASB Response:

The ASB agrees that amounts presented for discontinued operations should be determined in accordance with IFRS to ensure consistency and comparability with other amounts presented in the financial statements.

Question 3 – Disclosure of 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 disclosure requirements? Why or why not? If not, what changes would you propose, and why?

ASB Response:

The ASB does not support extending the disclosure requirements of IFRS 5 to encompass all components that have been disposed of or held for sale where the definition of a discontinued operation has not been met. We are concerned that this makes unclear the distinction between those activities that have ceased because of strategic shift in the business and other actions that management may ordinarily take in responding to the business environment. This also appears to be at odds with the IASB view, as noted in its 'Basis for Conclusions', that the "definition of discontinued operations should not include too many components". It would seem logical that the definition and disclosure requirements should articulate with one another – otherwise we struggle to understand the rationale that underpins them. In our view, presentation should flow from, and be related to, the definition of discontinued operations.

In the UK, Financial Reporting Standard (FRS) 3 'Reporting Financial Performance' makes this distinction which we believe is an important one: "only income and costs directly related to discontinued operations should appear under the heading of discontinued operations. Reorganisation or restructuring of continuing operations resulting from a sale or termination should be treated as part of continuing operations".

As a general principle our preference is for discontinued operations to be disclosed in the notes in the same manner as segment information. However, we note that this is beyond the scope of the proposed amendments to IFRS 5. Accordingly, rather than expand existing disclosures, our suggestion is that the IASB deals with the presentation of discontinued operations more comprehensively as part of its Financial Statement Presentation Project.

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?

ASB Response:

The ASB supports the disclosure exemption for businesses that meet the criteria as "held for sale on acquisition". These businesses never form part of 'continuing operations' and therefore should not trigger the disclosure requirements of IFRS 3 'Business Combinations' or IFRS 5. The proposed exemption in IFRS 5 is not particularly clear given that it comes at the end of paragraph 41B which relates to segment reporting. It would be helpful if the exemption appeared in a separate paragraph.

Question 4 – Effective date and transition

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

ASB Response:

The ASB supports the effective date proposals in the ED. However, given the Standard has recently been amended by IFRIC 17 'Distributions of Non-cash Assets to Owners' and potentially by the ED 'Improvements to IFRSs', it would be helpful if the IASB could align the effective dates to ensure that preparers are not faced with three versions of the one standard to consider within the 2009-10 reporting period.