

EXPOSURE DRAFT

# Discontinued Operations

Proposed amendments to IFRS 5

Comments to be received by 23 January 2009

127. DSR, 06.01.2009  
08e\_ED amend IFRS 5\_ED

Zusatzinformation  
Papier aus 126. -11b



**Exposure Draft**

**DISCONTINUED OPERATIONS  
(PROPOSED AMENDMENTS TO IFRS 5)**

*Comments to be received by 23 January 2009*

This exposure draft *Discontinued Operations* (proposed amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*) is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form as amendments to IFRS 5. Comments on the exposure draft and the Basis for Conclusions should be submitted in writing so as to be received by **23 January 2009**. Respondents are asked to send their comments electronically to the IASB Website ([www.iasb.org](http://www.iasb.org)), using the 'Open to Comment' page.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence.

The IASB, the International Accounting Standards Committee Foundation (IASCF), the authors and the publishers do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

Copyright © 2008 IASCF®

ISBN: 978-1-905590-74-2

All rights reserved. Copies of the draft amendments and the accompanying documents may be made for the purpose of preparing comments to be submitted to the IASB, provided such copies are for personal or intra-organisational use only and are not sold or disseminated and provided each copy acknowledges the IASCF's copyright and sets out the IASB's address in full. Otherwise, no part of this publication may be translated, reprinted or reproduced or utilised in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or in any information storage and retrieval system, without prior permission in writing from the IASCF.



International  
Accounting Standards  
Board®

The IASB logo/'Hexagon Device', 'eIFRS', 'IAS', 'IASB', 'IASC', 'IASCF', 'IASs', 'IFRIC', 'IFRS', 'IFRSs', 'International Accounting Standards', 'International Financial Reporting Standards' and 'SIC' are Trade Marks of the IASCF.

**Additional copies of this publication may be obtained from:**  
**IASC Foundation 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](mailto:publications@iasb.org) Web: [www.iasb.org](http://www.iasb.org)**

## CONTENTS

**INTRODUCTION**

**INVITATION TO COMMENT**

**PROPOSED AMENDMENTS TO IFRS 5**

**APPENDIX:**

**Amendments to other IFRSs**

**Proposed amendments to Guidance on Implementing IFRS 5**

**APPROVAL BY THE BOARD OF *DISCONTINUED OPERATIONS***

**BASIS FOR CONCLUSIONS**

## Introduction

- 1 This exposure draft contains proposals by the International Accounting Standards Board (IASB) to amend IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* to revise the definition of discontinued operations and require additional disclosure related to components of an entity that have been (or will be) disposed of.
- 2 In their joint project on financial statement presentation, the IASB and the US Financial Accounting Standards Board (FASB) decided to develop a common definition of discontinued operations and require common disclosures about components of an entity that have been (or will be) disposed of. In order to avoid delay, the boards are addressing these issues separately from the financial statement presentation project.
- 3 The boards propose that a disposal activity should be presented as a discontinued operation only when an entity has made a strategic shift in its operations. Moreover, the boards decided that a definition of discontinued operations based on operating segments, as defined in IFRS 8 *Operating Segments*, best captures a strategic shift in the entity's operations because the determination of operating segments is based on how the chief operating decision maker makes decisions about allocating resources and assessing performance.
- 4 As part of this joint project on discontinued operations, the FASB expects to publish in September 2008 a proposed FASB Staff Position (FSP) FAS 144-d, *Amending the Criteria for Reporting a Discontinued Operation*.
- 5 The IASB has not reconsidered other aspects of IFRS 5.

## Invitation to comment

The IASB invites comments on the amendments to IFRS 5 proposed in this exposure draft, particularly on the questions set out below. Comments are helpful if they:

- (a) comment on the questions as stated,
- (b) indicate the specific paragraph or group of paragraphs to which they relate,
- (c) contain a clear rationale, and
- (d) include any alternative the IASB should consider, if applicable.

Respondents need not comment on all of the questions and are encouraged to comment on any additional issues that, in their view, warrant consideration.

The IASB is not requesting comments on matters in IFRS 5 not addressed in this exposure draft.

Comments should be submitted in writing so as to be received no later than **23 January 2009**.

### Question 1 – Definition of discontinued operations

IFRS 5 defines a discontinued operation as a component of an entity that either has been disposed of or is classified as held for sale and

- (a) represents a separate major line of business or geographical area of operations,
- (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- (c) is a subsidiary acquired exclusively with a view to resale.

This exposure draft proposes changing the definition so that a discontinued operation is a component of an entity that

- (a) is an *operating segment* (as that term is defined in IFRS 8) and either has been disposed of or is classified as held for sale or
- (b) is a *business* (as that term is defined in IFRS 3 *Business Combinations* (as revised in 2008)) that meets the criteria to be classified as held for sale on acquisition.

The exposure draft proposes that an entity should determine whether the component of an entity meets the definition of an operating segment regardless of whether it is required to apply IFRS 8.

*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 2 – Amounts presented for discontinued operations**

Under IFRS 8, amounts disclosed for operating segments are the amounts reported to the chief operating decision maker. Nevertheless, although the proposed definition of a discontinued operation refers to operating segments, this exposure draft proposes that the amounts presented for discontinued operations should be based on the amounts presented in the statement of comprehensive income, even if segment information disclosed to comply with IFRS 8 includes different amounts that are reported to the chief operating decision maker.

*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?

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

The exposure draft proposes disclosures for all components of an entity that have been disposed of or are classified as held for sale, except for *businesses* that meet the criteria to be classified as held for sale on acquisition.

*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?

## DISCONTINUED OPERATIONS

### **Question 4 – Effective date and transition**

Entities would be required to apply the proposed changes prospectively, from a date to be determined by the IASB after exposure, with one exception: the amounts in the statement of comprehensive income (or in the separate income statement) should be reclassified on the basis of the revised definition of discontinued operations for all periods presented. Earlier application would be permitted.

#### *Question 4*

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



## **Proposed amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***

Paragraph 13 is amended: new text is underlined and deleted text is struck through.

### **Classification of non-current assets (or disposal groups) as held for sale**

---

#### **Non-current assets that are to be abandoned**

- 13 An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. However, if the disposal group to be abandoned meets the criteria in paragraph 32(a) or ~~(b)-(e)~~, the entity shall present the results and cash flows of the disposal group as a discontinued operations in accordance with paragraphs 33 and 34 at the date on which it ceases to be used. Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold.

Paragraphs 32, 33, 34 and 36 are amended: new text is underlined and deleted text is struck through. Paragraphs 32A and 33B are added. Paragraphs 31, 33A and 35 are not proposed for amendment but are included here for ease of reference.

### **Presentation and disclosure**

---

#### **Presenting discontinued operations**

- 31 *A component of an entity* comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will have been a cash-generating unit or a group of cash-generating units while being held for use.

DISCONTINUED OPERATIONS

- 32 A discontinued operation is a component of an entity that ~~either has been disposed of, or is classified as held for sale, and:~~
- (a) ~~is an operating segment and either has been disposed of or is classified as held for sale, or represents a separate major line of business or geographical area of operations,~~
  - (b) ~~is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or~~
  - (c) ~~is a business that meets the criteria to be classified as held for sale on acquisition subsidiary acquired exclusively with a view to resale.~~
- 32A If an entity is not required to present segment information because it is not subject to the requirements of IFRS 8 *Operating Segments*, the entity is nonetheless required to present discontinued operations based on the operating segment criterion in paragraph 32(a). That entity shall use the guidance in paragraphs 5–10 of IFRS 8 to determine what its operating segments are for the purpose of presenting discontinued operations.
- 33 An entity shall disclose:
- (a) a single amount in the statement of comprehensive income comprising the total of:
    - (i) the post-tax profit or loss of discontinued operations and
    - (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.
  - (b) an analysis of the single amount in (a) into:
    - (i) ~~the revenue, expenses, and~~ pre-tax profit or loss of discontinued operations, together with major income and expense items constituting that pre-tax profit or loss, including impairments, interest, depreciation and amortisation;
    - (ii) the ~~related~~ income tax expense related to (i) as required by paragraph 81(h) of IAS 12;
    - (iii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and
    - (iv) the ~~related~~ income tax expense related to (iii) as required by paragraph 81(h) of IAS 12.

The analysis may be presented in the notes or in the statement of comprehensive income. If it is presented in the statement of comprehensive income, it shall be presented in a section identified as relating to discontinued operations, ie separately from continuing operations. The analysis is not required for disposal groups that are businesses ~~newly acquired subsidiaries~~ that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).

- (c) ~~[subsumed in paragraph 41A(c)] the net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or in the financial statements. These disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).~~
- (d) ~~[subsumed in paragraph 41A(b)] the amount of income from continuing operations and from discontinued operations attributable to owners of the parent. These disclosures may be presented either in the notes or in the statement of comprehensive income.~~

The amounts disclosed to comply with this paragraph shall be determined using the IFRSs used to determine the amounts presented in the statement of comprehensive income, even if segment information disclosed to comply with IFRS 8 includes different amounts that are reported to the chief operating decision maker.

- 33A If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of IAS 1 (as revised in 2007), a section identified as relating to discontinued operations is presented in that separate statement.
- 33B If an entity discloses the major income and expense items from discontinued operations in the notes (see paragraph 33(b)), it shall reconcile the amounts of those items to the post-tax profit or loss from discontinued operations presented in the statement of comprehensive income (or in the separate income statement). In doing so, an entity may:
  - (a) aggregate the profit or loss of businesses that meet the criteria to be classified as held for sale on acquisition (see paragraph 41B); and
  - (b) aggregate the income and expense items (other than those in (a)) that are not disclosed separately because it did not consider them major.

## DISCONTINUED OPERATIONS

- 34 An entity shall re-present the disclosures in paragraph 33 for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the latest reporting period ~~for the latest period presented~~.
- 35 Adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period shall be classified separately in discontinued operations. The nature and amount of such adjustments shall be disclosed. Examples of circumstances in which these adjustments may arise include the following:
- (a) the resolution of uncertainties that arise from the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnification issues with the purchaser.
  - (b) the resolution of uncertainties that arise from and are directly related to the operations of the component before its disposal, such as environmental and product warranty obligations retained by the seller.
  - (c) the settlement of employee benefit plan obligations, provided that the settlement is directly related to the disposal transaction.
- 36 If an entity ceases to classify a component of an entity as held for sale, the results of operations of the components previously presented in discontinued operations in accordance with paragraphs 33, 33A, 34 and 35 ~~33-35~~ shall be reclassified and included in profit or loss ~~income~~ from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

Paragraphs 39 and 40 are amended: new text is underlined and deleted text is struck through. Paragraph 39A is added. Paragraph 38 is not proposed for amendment but is included here for ease of reference.

### **Presentation of a non-current asset or disposal group classified as held for sale**

- 38 An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale

shall be separately disclosed either in the statement of financial position or in the notes, except as permitted by paragraph 39. An entity shall present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale.

- 39 If the disposal group is a business ~~newly acquired subsidiary~~ that meets the criteria to be classified as held for sale on acquisition (see paragraph 11), disclosure of the major classes of assets and liabilities is not required.
- 39A If an entity discloses in the notes the major classes of assets and liabilities classified as held for sale, it shall reconcile the amounts of those assets and liabilities to total assets and total liabilities classified as held for sale that are presented separately in the statement of financial position. In doing so, an entity may:
- (a) aggregate the assets and liabilities of businesses that meet the criteria to be classified as held for sale on acquisition (see paragraph 39); and
  - (b) aggregate the assets and liabilities classified as held for sale (other than those in (a)) that are not disclosed separately because it did not consider them major.
- 40 An entity shall not reclassify or re-present amounts presented in the statements of financial position for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in ~~the statements of financial position for~~ prior periods to reflect the classification ~~in the statement of financial position~~ for the latest period presented.

Paragraph 41 is amended: new text is underlined and deleted text is struck through. After paragraph 41, paragraphs 41A and 41B are added.
---

#### **Additional disclosures**

- 41 An entity shall disclose the following information in the notes for ~~in~~ the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:
- (a) a description of the non-current asset (or disposal group);
  - (b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;

## DISCONTINUED OPERATIONS

- (c) the gain or loss recognised in accordance with paragraphs 20–22 and, if not separately presented in the statement of comprehensive income (or in the separate income statement), the caption in the statement of comprehensive income (or in the separate income statement) that includes that gain or loss;
  - (d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with IFRS 8 ~~Operating Segments~~.
- 41A An entity shall disclose the following information in the notes or in the statement of comprehensive income (or in the separate income statement) or statement of cash flows for the period in which a component of an entity has been either disposed of or classified as held for sale regardless of whether it is presented as a discontinued operation or within continuing operations:
- (a) the profit or loss, together with major income and expense items constituting that profit or loss, including impairments, interest, depreciation and amortisation;
  - (b) whether the profit or loss in (a) is presented in continuing operations or in discontinued operations;
  - (c) if the component of an entity includes a non-controlling interest, the profit or loss attributable to the owners of the parent; and
  - (d) the major classes of cash flows (operating, investing and financing).
- 41B The amounts disclosed to comply with paragraph 41A shall be determined using the IFRSs used to determine the amounts presented in the statement of comprehensive income, even if segment information presented to comply with IFRS 8 includes different amounts that are reported to the chief operating decision maker. These disclosures are not required for businesses that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).

After paragraph 43, paragraph 43A is added.
---

## Transitional provisions

---

- 43A In [date to be inserted after exposure], paragraphs 13, 32, 33, 34, 36, 39, 40 and 41 were amended and paragraphs 32A, 33B, 39A, 41A and 41B were added. An entity shall apply those [draft] amendments as follows:

- (a) An entity shall apply the [draft] amendments from the beginning of an annual period.
- (b) An entity shall present discontinued operations in the statement of comprehensive income (or in the separate income statement) in accordance with the revised definition of discontinued operations in paragraph 32 for all periods presented. Accordingly, if items presented in discontinued operations in prior periods do not meet the revised definition of discontinued operations, an entity shall reclassify the amounts presented in the statement of comprehensive income (or in the separate income statement) and present them in continuing operations. If an entity reclassifies prior period amounts, it shall disclose that fact and the amounts reclassified.
- (c) For periods before the application of the [draft] amendments that are presented in the financial statements in which the [draft] amendments apply, an entity shall provide disclosures based on the requirements applicable in those periods before the application of the [draft] amendments, regardless of whether it reclassifies the amounts in the statement of comprehensive income (or in the separate income statement) in accordance with (b). Accordingly, an entity is not required to provide the revised disclosures for components of an entity that have been disposed of or were classified as held for sale in periods before the [draft] amendments are applied.
- (d) For periods after the application of the [draft] amendments, an entity shall provide disclosures in accordance with the revised requirements.

After paragraph 44, paragraph 44A is added.

### **Effective date**

---

- 44A An entity shall apply the [draft] amendments made in [year to be inserted after exposure] to paragraphs 13, 32, 33, 33B, 34, 36 and 39-41B for annual periods beginning on or after [date to be inserted after exposure] in accordance with paragraph 43A. Earlier application is permitted. If an entity applies the [draft] amendments before [date to be inserted after exposure], it shall disclose that fact.

## Appendix A

### Defined terms

The following term is amended: new text is underlined and deleted text is struck through.

<b>discontinued operation</b>	<p>A component of an entity that <del>either has been disposed of or is classified as held for sale and:</del></p> <p>(a) <u>is an operating segment and either has been disposed of or is classified as held for sale, or represents a separate major line of business or geographical area of operations,</u></p> <p>(b) <del>is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or</del></p> <p>(c) <u>is a business that meets the criteria to be classified as held for sale on acquisition</u> <del>subsidiary acquired exclusively with a view to resale.</del></p>
-------------------------------	--

The following terms are added.

<b>business</b>	An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.
<b>operating segment</b>	<p>An operating segment is a component of an entity:</p> <p>(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),</p> <p>(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and</p> <p>(c) for which discrete financial information is available.</p>



## Appendix Amendments to other IFRSs

The amendments in this appendix shall be applied for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies the [draft] amendments to IFRS 5 for an earlier period, it shall apply the amendments for that earlier period. In the amended paragraphs, new text is underlined and deleted text is struck through.

1 In IAS 12 *Income Taxes* paragraph 81 is amended as follows:

**81 The following shall also be disclosed separately:**

...

**(h) in respect of discontinued operations, the tax expense relating to:**

**(i) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operation ~~on discontinuance~~; and**

**(ii) the profit or loss ~~from the ordinary activities of the discontinued operations~~ for the period, together with the corresponding amounts for each prior period presented;**

...

2 In IFRS 3 *Business Combinations* (as revised in 2008) paragraph B64A is added after paragraph B64:

B64A Disclosures specified in paragraph B64(h), (i) and (q) are not required if an entity acquires a disposal group that is a business that meets the criteria to be classified as held for sale on acquisition (see paragraph 11 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (as revised in [year to be inserted after exposure])).

## Proposed amendments to guidance on implementing IFRS 5

Example 9 is amended: new text is underlined and deleted text is struck through.

### Presenting a discontinued operation that has been abandoned

Paragraph 13 of the IFRS prohibits assets that will be abandoned from being classified as held for sale. However, if the assets to be abandoned meet the definition of an operating segment ~~are a major line of business or geographical area of operations~~, they are presented ~~reported~~ in discontinued operations at the date at which they are abandoned. Example 9 illustrates this.

#### Example 9

In October 20X5 an entity decides to abandon all of its cotton mills, which together meet the definition of an operating segment ~~constitute a major line of business~~. All work stops at the cotton mills during the year ended 31 December 20X6. In the financial statements for the year ended 31 December 20X5, results and cash flows of the cotton mills are treated as continuing operations. In the financial statements for the year ended 31 December 20X6, the results and cash flows of the cotton mills are treated as discontinued operations and the entity makes the disclosures required by paragraphs 33 and 34 of the IFRS.

Example 13 is amended: deleted text is struck through.

### Measuring and presenting businesses that meet the criteria to be subsidiaries acquired with a view to resale and classified as held for sale on acquisition

A subsidiary that meets the criteria to be classified as held for sale on acquisition ~~acquired with a view to sale~~ is not exempt from consolidation in accordance with IAS 27 *Consolidated and Separate Financial Statements*. However, ~~if it meets the criteria in paragraph 11,~~ it is presented as a disposal group classified as held for sale. Example 13 illustrates these requirements.

#### Example 13

Entity A acquires entity H, which is a holding company with two subsidiaries, S1 and S2. ~~S2 is acquired exclusively with a view to sale and~~ meets the definition of a business and the criteria to be classified as held for sale on acquisition. In accordance with paragraph 32 ~~(b)(c)~~, S2 is ~~also~~ a discontinued operation.

~~The estimated fair value less costs to sell of S2 is CU135. A accounts for S2 as follows:~~

- initially, A measures the disposal group (ie the assets and liabilities of S2 as a whole) at CU135. The identifiable liabilities of S2, which form part of the disposal group, are measured at fair value, ~~ie say~~ at CU40.
- ~~initially,~~ A measures the acquired assets as the fair value less costs to sell of the disposal group S2 (CU135) plus the fair value of the identifiable liabilities (CU40), ie at CU175
- at the end of the reporting period, A remeasures the disposal group at the lower of its cost and fair value less costs to sell, ~~ie say~~ at CU130. The liabilities are remeasured in accordance with applicable IFRSs, ~~ie say~~ at CU35. The total assets are measured at CU130 + CU35, ie at CU165
- at the end of the reporting period, A presents the assets and liabilities separately from other assets and liabilities in its consolidated financial statements as illustrated in Example 12 *Presenting non-current assets or disposal groups classified as held for sale*, and
- in the statement of comprehensive income, A presents the total of the post-tax profit or loss of S2 and the post-tax gain or loss recognised on the subsequent remeasurement of S2, which equals the remeasurement of the disposal group from CU135 to CU130.

Further analysis of the assets and liabilities or of the change in value of the disposal group is not required.

**Approval by the Board of *Discontinued Operations*  
(proposed amendments to IFRS 5) published in  
September 2008**

---

*Discontinued Operations* (proposed amendments to IFRS 5) was approved for publication by the thirteen members of the International Accounting Standards Board.

Sir David Tweedie	Chairman
Thomas E Jones	Vice-Chairman
Mary E Barth	
Stephen Cooper	
Philippe Danjou	
Jan Engström	
Robert P Garnett	
Gilbert Gélard	
James J Leisenring	
Warren J McGregor	
John T Smith	
Tatsumi Yamada	
Wei-guo Zhang	

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, the draft amendments to IFRS 5.*

### Introduction

---

BC1 This Basis for Conclusions summarises the considerations of the International Accounting Standard Board in reaching the conclusions in the exposure draft *Discontinued Operations* (proposed amendments to IFRS 5). Individual Board members gave greater weight to some factors than to others.

### Background

---

BC2 The IASB issued IFRS 5 in 2004 as the result of a short-term convergence project with the US Financial Accounting Standards Board (FASB) to reduce differences between IFRSs and US generally accepted accounting principles (GAAP) that are capable of resolution in a relatively short time. In developing IFRS 5, the IASB discussed the requirements of FASB Statement No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144) as they relate to assets held for sale and discontinued operations.

BC3 Although IFRS 5 led to substantive convergence with US GAAP, the boards' definitions of discontinued operations remained different. During its deliberations, the IASB concluded that the size of unit that could be classified as discontinued in accordance with SFAS 144 was too small. The IASB noted in IFRS 5 that having a different definition was an interim measure and that it intended to work with the FASB to arrive at a common definition within a relatively short time.

BC4 In their joint project on financial statement presentation, the boards decided to develop a common definition of discontinued operations and require common disclosures about components of an entity that have been disposed of or are classified as held for sale. In order to avoid delay, the boards decided to address these issues separately from the financial statement presentation project but jointly as a project on discontinued operations.

BC5 As a result of this project on discontinued operations, the FASB plans to amend SFAS 144. The FASB's proposal is expected to be published in September 2008 in the form of a proposed FASB Staff Position (FSP) FAS 144-d *Amending the Criteria for Reporting a Discontinued Operation*.

## The proposed amendments

---

### Definition of discontinued operations

- BC6 IFRS 5 defines a discontinued operation as a component of an entity that either has been disposed of or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or (c) is a subsidiary acquired exclusively with a view to resale. SFAS 144 defines a discontinued operation as a component of an entity that has been disposed of or is classified as held for sale provided that (a) the operations and the cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction or (b) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.
- BC7 The boards propose to use an operating segment, as that term is defined in IFRS 8 *Operating Segments* and FASB Statement No. 131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131), as the criterion to determine whether a component of an entity that has been disposed of or is classified as held for sale should be presented in discontinued operations. The boards made this decision for the following reasons:
- (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.
  - (b) A definition that refers to a 'major line of business' and 'geographical area' could be subjective.
  - (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.

- BC8 Preparers of financial statements using US GAAP have repeatedly argued that the definition of discontinued operations in SFAS 144 includes too many components, whereas users of those financial statements note that information provided for each component of an entity is useful in analysing the financial statements of an entity. 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 (with the exception of businesses that meet the criteria to be classified as held for sale on acquisition, as discussed in paragraphs BC12-BC17).
- BC9 The IASB decided that the definition of discontinued operations should not include too many components. However, the IASB noted that users of financial statements would receive useful information from disclosures related to components of an entity that have been disposed of or are classified as held for sale. Accordingly, the IASB proposes to require the proposed disclosures for all components of an entity that have been disposed of or are classified as held for sale (with the exception of businesses that meet the criteria to be classified as held for sale on acquisition, as discussed in paragraphs BC12-BC17).

### **Amounts presented in discontinued operations**

- BC10 The boards noted that the operating segment criterion is a classification criterion and not a measurement criterion. Accordingly, amounts presented in discontinued operations should be based on IFRSs or US GAAP used to determine the amounts presented in the statement of comprehensive income, even if segment information disclosed to comply with IFRS 8 or SFAS 131 includes different amounts that are reported to the chief operating decision maker.
- BC11 The boards acknowledged that this requirement may require an entity to gather additional information related to the operating segment. However, the objective of the separate presentation of amounts relating to discontinued operations is not to extend segment disclosures. Rather, it is to provide users with information about the different cash flows expected to arise from continuing operations and discontinued operations. For that to be achieved in an objective and consistent manner, the amounts must be determined in accordance with those IFRSs used to determine the amounts presented in the statement of comprehensive income.

**Businesses that meet the criteria to be classified as held for sale on acquisition**

- BC12 Until IFRS 5 was issued in March 2004, subsidiaries that met the criteria to be classified as held for sale on acquisition were exempt from consolidation. IFRS 5 amended IAS 27 *Consolidated and Separate Financial Statements* to require an entity to consolidate all its subsidiaries, including those that meet the criteria to be classified as held for sale on acquisition. Treating such subsidiaries as consolidated disposal groups and discontinued operations rather than as investments did not significantly change the amounts recognised and presented in the statement of comprehensive income or statement of financial position. However, requiring the note disclosures could have required entities to obtain significantly more information. Therefore, when issuing IFRS 5, the IASB did not require note disclosures for subsidiaries that met the criteria to be classified as held for sale on acquisition.
- BC13 The IASB considered how an entity should treat subsidiaries that meet the criteria to be classified as held for sale on acquisition under the revised definition of discontinued operations and whether the disclosure requirements related to components of an entity that have been disposed of or are classified as held for sale should apply to such subsidiaries.
- BC14 The IASB concluded that subsidiaries that meet the criteria to be classified as held for sale on acquisition should meet the definition of discontinued operations as an exception to the general principle that discontinued operations should be based on an operating segment. However, the IASB proposes that the definition should refer to a business, as that term is defined in IFRS 3 *Business Combinations* (as revised in 2008), rather than a subsidiary, because all acquisitions of businesses would face the same presentation issues and the presentation should not differ according to the legal form. The IASB also concluded that, consistently with IFRS 5, the proposed revised note disclosures should not be required for such businesses. The IASB also concluded that there should be no requirement that would limit businesses that meet the criteria to be classified as held for sale on acquisition to be reported in discontinued operations only when the sale is required by law or regulation.
- BC15 The definition of a discontinued operation in IFRS 5 refers to subsidiaries 'acquired exclusively with a view to resale', whereas disclosure exemptions are provided for subsidiaries 'that meet the criteria to be classified as held for sale on acquisition'. The IASB noted that these terms have identical meanings and decided to use the latter consistently throughout IFRS 5.



- BC16 Businesses that meet the criteria to be classified as held for sale on acquisition are likely to meet the definition of discontinued operations in SFAS 144. SFAS 144 does not provide disclosure exemptions for such subsidiaries. However, the FASB reached the same conclusions as the IASB and decided to include in the definition of discontinued operations businesses that meet the criteria to be classified as held for sale on acquisition and to provide disclosure exemptions for such businesses.
- BC17 The disclosure requirements of IFRS 3 (as revised in 2008) and SFAS 141(R) *Business Combinations* apply to the acquisition of all businesses, including those that meet the criteria to be classified as held for sale on acquisition. The boards noted that providing disclosure exemptions only for IFRS 5 and SFAS 144 requirements would be insufficient because IFRS 3 (as revised in 2008) and SFAS 141(R) require similar disclosures. The boards decided to amend those standards and provide similar disclosure exemptions.

### **Reconciliation of amounts presented in the notes to the amounts presented in the financial statements**

- BC18 The amounts required to be disclosed in the notes would not necessarily be reconciled to the amounts presented on the face of the financial statements in the following areas:
- (a) for major income and expense items, the amounts disclosed in the notes would not be reconciled to the post-tax profit or loss from discontinued operations presented in the statement of comprehensive income (or in the separate income statement); and
  - (b) for major classes of assets and liabilities classified as held for sale, the amounts disclosed in the notes would not be reconciled to the amounts presented separately in the statement of financial position.
- BC19 The boards questioned whether this would cause confusion to users of financial statements who try to reconcile the amounts on their own. Accordingly, the boards propose that an entity should reconcile the amounts presented in the notes to the amounts presented in the statement of comprehensive income and statement of financial position in order to provide more useful and complete information. The information to present this reconciliation is readily available because it would be the same as the information needed for presentation in the statement of comprehensive income and statement of financial position.

## Transition

- BC20 The boards believe that, in general, retrospective application is desirable because it enhances comparability. The FASB is proposing retrospective application for its amendments to SFAS 144. Entities applying US GAAP typically have the information to apply the amendments retrospectively because many components of an entity that have been disposed of or are classified as held for sale meet the definition of discontinued operations and entities will therefore have provided the required disclosures.
- BC21 The IASB proposes that an entity should apply the revised definition of discontinued operations retrospectively in the statement of comprehensive income (or in the separate income statement). However, the IASB proposes that disclosures for prior periods should be provided in accordance with the requirements applicable in those prior periods and that disclosures required in accordance with the revised disclosure requirements should be provided prospectively from the beginning of the period in which an entity first applies the amendments. The IASB noted that an entity may face difficulties in obtaining the information to apply the proposed amendments retrospectively for the note disclosures, particularly in the case of disclosures related to components of an entity that have been disposed of or are classified as held for sale but did not meet the definition of discontinued operations in prior periods.