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Diese Unterlage wurde von einem Mitarbeiter des DRSC für die DSR-Sitzung erstellt.

## DSR – öffentliche SITZUNGSUNTERLAGE

<b>DSR-Sitzung:</b>	<b>127. / 6.01.2009 / 11:00 – 13:00 Uhr</b>
<b>TOP:</b>	<b>08 – ED amend IFRS 5</b>
<b>Thema:</b>	<b>Entwurf einer Stellungnahme an den IASB</b>
<b>Papier:</b>	<b>08a_ED amend IFRS 5_Entwurf DSR an IASB</b>



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Sir David Tweedie  
Chairman of the  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Berlin, 19. Dezember 2008

Dear David,

### **Exposure Draft 'Discontinued Operations – Proposed amendments to IFRS 5'**

We appreciate the opportunity to respond to the International Accounting Standards Board's Exposure Draft (ED) 'Discontinued Operations – Proposed amendments to IFRS 5'. This letter represents the view of the German Accounting Standards Board (GASB).

In general, we support the objective of convergence of IFRSs and US GAAP. However, we disagree with the way how this is achieved in the context of discontinued operations. It seems to us, that IASB and FASB could not really agree on the definition of a discontinued operation. So an easy compromise – namely avoiding such a decision - was reached rather than undergoing a critical analysis of different definitions. This approach to convergence seems to ignore the desired quality of standards, which from our point of view, should be of highest importance. Our main concerns are related to the definition of a discontinued operation and the disclosure requirements for components of an entity that do not meet the definition of a discontinued operation. For detailed comments on the questions raised in the ED see the appendix to this letter. Beside the specific proposed amendments, we have two additional concerns.

First of all, we have concerns regarding the procedure of the set-up of the project. In the introduction to the ED it is pointed out, that the boards decided to address the issues of definition and disclosures separately from their joint project on financial statement presentation, in order to avoid delay. We understand the reasoning of the IASB. However, we believe the proposed amendments to IFRS 5 cannot be considered isolated from the financial statement presentation project. In addition, the IASB itself does not clearly distinguish between the objectives of the ED and the Discussion Paper

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'Preliminary Views on Financial Statement Presentation' (DP) published in October 2008. The DP (para. 2.73) states that the ED is including a new definition and related disclosures while the DP is addressing only the presentation of discontinued operations in the financial statements. We wonder how these issues, in particular disclosures and presentation issues, can be clearly distinguished and considered separately. Our concerns are that the proposed amendments to IFRS 5 are not consistent with the proposals in the DP and will be changed again, when a consensus on the presentation issues in the financial statement presentation project is achieved.

Secondly, we have concerns regarding the current IFRS 5 requirement for different treatment of discontinued operations in the statement of financial position, depending on whether they are classified as held for sale or are to be abandoned. From our point of view, the required treatment could lead to a presentation of economically identical issues in a different way, and therefore to an absurd presentation that is doubtful from the perspective of giving useful information to users. For example: When an entity decides to sell a disposal group that is a discontinued operation and that meets the criteria to be classified as held for sale (according to IFRS 5.7-12), the entity has to present the discontinued operations separately from other assets in the statement of financial position (according to IFRS 5.38). After negotiations with potential buyers the entity may realise that it would be more favourable to abandon the part than to sell it and would do so. As a consequence, the entity is no longer allowed to present the operation separately in the statement of financial position because it is not longer to be classified as held for sale (according to IFRS 5.13). Although in both cases (selling or abandoning) the entity clearly decides not to continue the operation the presentation changes with the decision whether it will be sold or abandoned. We believe that the different treatment of selling or abandoning leads to a misguided presentation in the example. We therefore ask the IASB to reconsider that issue.

In addition, current IFRS 5.13 states that, if a disposal group to be abandoned meets the definition of a discontinued operation, this operation shall be presented in the statement of comprehensive income and/or the notes in accordance with IFRS 5.33 and 34. That is, the requirements for discontinued operations classified as held for sale are to be applied to discontinued operations to be abandoned. Through the ED, the requirement to include a reconciliation in cases where disclosures are given in the notes will be added to IFRS 5 (new para. 33B). We believe that the added para. 33B shall be made applicable to discontinued operations to be abandoned in the same way as para. 33 and 34. We therefore deem it necessary to amend IFRS 5.13 accordingly.

If you want to discuss any aspects of this letter in more detail, please do not hesitate to contact me.

Yours sincerely,

*Liesel Knorr*  
President



## APPENDIX

### 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?

#### Frage an den DSR:

Stimmt der DSR dem Formulierungsvorschlag auf Basis der in der Sitzungsunterlage 08b durchgeführten Analyse zu?

#### Hinweis:

In seiner Sitzung vom 10. Dezember 2008 hat der DSR Bedenken geäußert, dass die vom IASB vorgeschlagene Definition einer *discontinued operation* auf Basis eines *operating segment* zu eng ist. Eine Definition auf Ebene einer *cash-generating unit* (CGU) wurde dagegen als zu weit angesehen. Die Diskussion zu einer geeigneten Ebene für die Definition einer *discontinued operation* soll in dieser Sitzung fortgesetzt werden. Dazu bat der Rat den Projektmanager um eine Analyse verschiedener potentieller Ebenen. Die Analyse befindet sich in Sitzungsunterlage 08b.

As already mentioned in the cover letter, we support the objective of convergence of IFRSs and US GAAP in general. Additionally, we support convergence across the standards by using identical terms. However, we disagree with the way this will be achieved in case of the definition of a discontinued operation.

Although we agree with the IASB's opinion that the current definition referring to a 'major line of business' or a 'geographical area' could be subjective, we do not believe that the proposed definition is an improvement. A definition based on the existence of an operating segment may be more objective because of the guidance in IFRS 8. However, an approach using an operating segment has the significant disadvantage that the disposal of operating activities, that represents a major part of the entities activities but do not represent an operating segment, would not be presented separately, though the related information would be relevant for users.

In addition, we do not agree with the IASB's view that a disposal of an operating segment would most likely indicate a strategic shift in an entity's operations. A disposal of a major line of business may indicate a strategic shift in an entity's operations as well. We ask the IASB to clarify the term 'major line of business' rather than to use a more objective term like operating segment that worsens the usefulness of the information that is given.

Furthermore, even if one would accept the approach that the definition of a discontinued operation is based on the existence of an operating segment, it is doubtful whether the



IASB really intends to consider only a disposal of a whole operating segment as a discontinued operation. The current wording of the definition implies that a disposal of a significant part (e.g. 90%) of a segment would not be treated as a discontinued operation. We therefore have concerns that decision useful information would not be given in these cases.

In addition, the IASB should make clear whether an operating segment prior to or after aggregation is meant. Even if in ED IFRS 5.32A it is written that an entity shall use the guidance in paragraphs 5–10 of IFRS 8 (i.e. prior to aggregation) to determine what its operating segments are for the purpose of presenting discontinued operations, para. 32A is only related to entities that are not required to present segment information because they are not subject to the requirements of IFRS 8. Because all entities should use the same understanding of an operating segment in terms of IFRS 5, the IASB should give a clear guidance related to all entities.

Regarding the wording in the ED IFRS 5.32, we note that the current proposed definition says that ‘a discontinued operation is a component of an entity that is an operating segment ...’. We believe that the term ‘component of an entity’ can be left out, because an operating segment itself is defined in IFRS 8.5 as a component of an entity. Additionally, every business will be a component of an entity anyway.

**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?

We believe that it is feasible for entities to determine whether the component of an entity meets the definition of an operating segment even when these entities are not required to apply IFRS 8 for segment reporting purposes. However, as already said above, we have some concerns whether defining a discontinued operation on the basis of an operating segment is the appropriate approach.

**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?

We agree that the amounts presented for discontinued operations should be based on the amounts presented in the statement of comprehensive income. We support the IASB’s view that the objective of the separate presentation of amounts relating to



discontinued operations (namely providing users with information about different cash flows expected to arise from continuing and discontinued operations) would be achieved in an objective and consistent manner, when the amounts must be determined in accordance with those IFRSs used to determine the amounts presented in the statement of comprehensive income.

### **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 for components of an entity as long as they meet the definition of a discontinued operation. These requirements include the extended analysis of the post-tax profit or loss according to ED IFRS 5.33(b)(i) and the reconciliation according to ED IFRS 5.33B in cases where the analysis is presented in the notes.

We disagree with the proposed disclosure requirements for components of an entity that do not meet the definition of a discontinued operation. Either a component of an entity meets the definition of a discontinued operation and should therefore be presented separately in the statement of comprehensive income and/or notes, or a component of an entity does not meet the definition of a discontinued operation. Such a component would then not have to be shown separately. The IASB itself states in ED IFRS 5.BC11 that the objective of the separate presentation of discontinued operations is to provide users with information about the different cash flows expected to arise from continuing and discontinued operations. We doubt the usefulness of the proposed extensive information related to components of an entity that do not meet the definition of discontinued operations.

In addition, we note that the IASB provides an explanation for all proposed amendments in the basis for conclusions except for the extension of disclosures relating to all components of an entity. It seems to us that IASB and FASB could not agree on the definition of a discontinued operation. While the FASB seems to favor a definition that includes more components as discontinued operations, the IASB seems to favor a definition including fewer components. So a compromise was reached, namely a definition that includes fewer components as discontinued operations to be presented in the statement of comprehensive income and – as ‘compensation’ – disclosures relating to all other components in the notes. Although we support convergence of accounting standards in general and we are aware that compromise will sometime be necessary, the high quality of the standards should have the highest priority.



### 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 for businesses that meet the criteria to be classified as held for sale on acquisition. Furthermore, we support the proposed consequential amendment to IFRS 3 to provide similar disclosure exemptions, because this amendment improves the consistency of the standards.

### Effective date and transition

#### Question 4

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

We agree that the proposed prospective application of the revised disclosures is appropriate. That is because we believe that a retrospective application would be impracticable and the usefulness of this information is doubtful. For the same reasons we do not agree with the proposed retrospective application of the revised definition and would propose a prospective application.