



2 February 2009

Sir David Tweedie  
Chairman  
IASB  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

E-mail: [commentletters@iasb.org](mailto:commentletters@iasb.org)

Ref.: ACC/HvD/SS/LF/SH

Dear Sir David,

**Re.: FEE Comments on IASB Exposure Draft of proposed amendments to IFRS 5  
*Discontinued Operations***

- (1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the IASB Exposure Draft of proposed amendments to IFRS 5 *Discontinued Operations* (the "ED").
- (2) As a founding organisation of EFRAG, we have also contributed to the EFRAG consultation process by submitting the FEE comments on EFRAG's Draft Comment Letter issued by EFRAG on 17 December 2008. EFRAG has issued its final comment letter on 30 January 2009. We have considered the EFRAG Final Comment Letter in our response and made reference to the EFRAG comments where relevant.
- (3) We are not supporting the amendments to IFRS 5. We share most of the significant concerns presented by EFRAG in its Final Comment Letter.
- (4) In general:
  - FEE supports the principle of seeking convergence of international financial reporting standards and, like EFRAG, supports the IASB's efforts to achieve greater convergence in this area. However, we believe that convergence efforts should lead to the highest quality accounting solutions and we doubt whether the proposals provide a better solution than the current accounting as laid down in IFRS 5 and fear that the changes may have some unintended consequences. The current accounting as far as we are aware does not pose major problems. Moreover, we prefer a principles-based solution and support the principles of a major line of business or geographical area of operations as laid down in the actual IFRS 5. We appreciate that a principle can result in differences in application but feel that this is inherent to a principles-based approach. Therefore, we do not agree with the proposals in the ED and would prefer if IFRS 5 were not changed.

**Responses to the questions in the Invitation to comment of the IASB Exposure Draft of proposed amendments to IFRS 5 *Discontinued Operations***

- Like EFRAG, we do not agree with the proposal in the ED that the definition of discontinued operations should focus on “operating segments”. We are not convinced that basing the definition of a discontinued operation on the IFRS 8’s notion of operating segments is the right approach, in particular since this may lead to difficulties in practice. As an example, the proposed new definition may fail to capture appropriately disposals by an entity that follows a matrix form organisation. Since IFRS 8 requires that such entity discloses operating segments information based on one of the two sets of segments that are regularly reviewed by the chief operating decision maker, only the disposal of a segment from the disclosed set would qualify as a discontinued operation under the revised definition. Disposal of a segment within the set that is not disclosed under IFRS 8 may nonetheless represent a strategic shift in the entity that may warrant separate disclosure. Accordingly, the ED may need to consider whether special considerations are required for entities that follow a matrix form organisation.
- If the IASB were to continue the proposed amendments to IFRS 5, we are of the opinion that the definition of a discontinued operation should not be related to a “strategic shift”.
- We note that EFRAG does not support the proposals to require additional disclosures for all components of an entity that have been disposed of or are classified as held for sale if the IASB were to continue with its proposed amendments to IFRS 5. However we wish to observe that not having the disclosures as required by paragraph 41A may imply that users are provided with less information than under the existing IFRS 5 on discontinued operations. We agree that requiring additional disclosures to compensate for a definition that is not robust enough is not a proper way forward. It needs further investigation as to what level of disclosure is useful for users.

Our responses to the questions in the Invitation to comment of the ED are included as an Appendix to this letter.

For further information on this letter, please contact Ms Saskia Slomp from the FEE Secretariat.

Yours sincerely,



Hans van Damme  
President

Responses to the questions in the Invitation to comment of the IASB Exposure Draft of proposed amendments to IFRS 5 *Discontinued Operations*

**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 Segment Reporting) 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?**

- (5) If the IASB were to continue with its proposed amendments to IFRS 5, we are of the opinion that the definition of a discontinued operation should not be related to a “strategic shift” and that any such reference should be removed, since we are not sure that an operating segment (as defined in IFRS 8) is a term that is always in coherence with the term strategic shift as in the objective of amended IFRS 5 (the separate presentation of all strategic shifts). In particular, we are not sure an operating segment will capture all strategic shifts.
- (6) As an example, the proposed new definition may fail to capture appropriately disposals by an entity that follows a matrix form organisation. Since IFRS 8 requires that such entity discloses operating segments information based on one of the two sets of segments that are regularly reviewed by the chief operating decision maker, only the disposal of a segment from the disclosed set would qualify as a discontinued operation under the revised definition. Disposal of a segment within the set that is not disclosed under IFRS 8 may nonetheless represent a strategic shift in the entity that may warrant separate disclosure. Accordingly, the ED may need to consider whether special considerations are required for entities that follow a matrix form organisation.

**Responses to the questions in the Invitation to comment of the IASB Exposure Draft of proposed amendments to IFRS 5 *Discontinued Operations***

- (7) In addition, we note that the existing definition does not appear to have given rise to difficulties in practice.

**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?**

- (8) We consider that it would be feasible in most cases for an entity not required to apply IFRS 8 to determine whether the component of an entity meets the definition of an operating segment. We share EFRAG's comments detailing that an entity not required to apply IFRS 8 would still have an internal reporting system that is the point of reference in the operating segment notion.
- (9) However, since we support having a definition not based on operating segments as defined in IFRS 8 (see our response to Question 1(a)), we note that our preferred approach would also result in the same definition being applied by all entities regardless of whether they are required to apply IFRS 8 or not. Hence, this question would not arise if a more principles-based definition was applied.

**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.**

**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?**

- (10) We agree with EFRAG and the proposals that the amounts presented for discontinued operations should be based on the amounts actually presented in the statement of comprehensive income, namely to ensure that there is consistency in the information provided.

**Responses to the questions in the Invitation to comment of the IASB Exposure Draft of proposed amendments to IFRS 5 *Discontinued Operations***

**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?**

- (11) We note that EFRAG does not support the proposals to require additional disclosures for all components of an entity that have been disposed of or are classified as held for sale, regardless of whether those components are a discontinued operation as defined. However we wish to observe that not having the disclosures as required by paragraph 41A may imply that users are provided with less information than under the existing IFRS 5 on discontinued operations. We agree that requiring additional disclosures to compensate for a definition that is not strong enough is not a proper way forward. It needs further investigation as to what level of disclosure is useful for users.
- (12) We think that these requirements can lead in certain circumstances to disclosures that are not relevant to users of financial statements. We agree with EFRAG that the principal objective of the disclosures in the notes should be to support the information in the financial statements by providing additional details on the disposed operations that are reported in the face of the primary statements.
- (13) In addition, it may be difficult in practice to distinguish between discontinued operations and continued operations (not being a segment as defined as in IFRS 8, so not presented distinctly in the comprehensive income in the category of “discontinued operations”) are included in “continued operations” and further disclosed in the notes. We doubt that this will improve the clarity of the information. Moreover, the request for additional disclosures demonstrates that the definition of a discontinued operation and the objective of the IFRS 5 need clarification. Additional disclosures cannot compensate for not having an appropriate definition which captures all relevant information.
- (14) Like EFRAG, we do not concur with the justification for the proposed disclosure requirements as detailed in BC8 and we agree that, regardless of whether a compromise is involved, the overall result should be an improvement in financial reporting. As noted earlier, we do not believe that this has been achieved in this case.

**Responses to the questions in the Invitation to comment of the IASB Exposure Draft of proposed amendments to IFRS 5 *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?**

- (15) We support EFRAG and agree with the proposal.

**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.**

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

- (16) We support EFRAG and agree with the proposed transitional provisions regarding the disclosure requirements proposed, if the proposals are adopted, on the basis that it would be impracticable to require retrospective application of these disclosure requirements.
- (17) However, we note as explained in our response to Question 3(a) that we do not support the proposals to require additional disclosures to which the proposed transitional relief would apply.
- (18) For the proposals relating to the definition of a discontinued operation, we agree with the transitional provisions to require their application retrospectively to enhance the comparability of the final information provided.