

23 January 2009

Sir David Tweedie, Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

**Re: Exposure Draft, *Discontinued Operations* – Proposed amendments to IFRS 5**

Dear Sir David,

We are pleased to respond to the Exposure Draft, *Discontinued Operations* - Proposed amendments to IFRS 5 (the “proposed amendment” or the “Exposure Draft”).

Deloitte continues to support the convergence efforts of the world’s national accounting standard-setters and the IASB with the objective of developing a set of high quality global accounting standards which command wide acceptance and support. We support the Board’s joint project with the FASB to develop a common definition of and disclosure requirements for discontinued operations.

While we support the convergence objective of this proposed amendment, because of scope differences between IFRS 5 and FASB Statement 144, *Accounting for Impairment of Disposal of Long Lived Assets*, there will continue to be differences in reporting discontinued operations. For example, FASB Statement 144 excludes equity method investments from its scope whereas IFRS 5 does not. As such, a disposal of an equity method investment cannot be presented as a discontinued operation under US GAAP but could qualify under IFRS. While these differences are not included in the scope of this project, we believe the Boards should consider the scope differences in further convergence projects.

Our detailed responses to the invitation to comment questions are included in Appendix A to this letter.

If you have any questions concerning our comments, please contact me in London at +44 (0) 207 007 0907.

Sincerely,



**Ken Wild**  
**Global IFRS Leader**

## **Appendix A: Invitation to Comment**

### **Question 1(a)**

**Do you agree with the proposed definition? Why or why not? If not, what definition would you propose, and why?**

We agree with the proposed definition of discontinued operations. We believe that moving to the operating segment definition for presenting discontinued operations will reduce complexity by eliminating the current definition which is similar but more subjective. Also, we believe that it is appropriate not to combine the operations of an acquired business that meets the definition of held for sale upon acquisition with the continuing operations of the entity as the operations have not been and will not be integrated into the entity.

### **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 generally it would be feasible for an entity that is not required to apply IFRS 8 to apply the guidance in that Standard to determine whether the component of an entity meets the definition of an operating segment when evaluating discontinued operations. We also note that, in determining goodwill impairment under IAS 36, entities are not allowed to aggregate cash generating units at a level higher than an operating segment under IFRS 8. Therefore, in practice entities not required to apply IFRS 8 already have to consider the guidance in IFRS 8 in other areas.

### **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 the amounts presented for discontinued operations should be based on the amounts presented in the statement of comprehensive income in accordance with IFRSs as it is those reported amounts that have been or will be eliminated from the ongoing operations of the entity as a result of the disposal transaction.

### **Question 3(a)**

**Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes would you propose, and why?**

The Boards determined that the users of the financial statement want segregated information regarding a significant shift in an entity's operations. The additional disclosures required in paragraph 41A for a component of an entity that does not meet the discontinued operations criteria appear inconsistent with this aim and may result in a significant burden on financial statement preparers. While we believe high-quality disclosures are essential in providing users with information regarding the entity, we believe that requiring these new disclosures introduces a requirement to segregate information regarding components that management may consider to be part of their regular activities (i.e. sale of an investment property). We therefore suggest the Board does not require the additional disclosures for components of an

entity that do not meet the definition of a discontinued operation but rather focus on providing information regarding discontinued operations.

We also note that the proposed new definition may fail to capture certain disposals by an entity that follows a matrix form organization. IFRS 8.10 requires that in determining operating segments, an entity with a matrix organization selects one of the two sets of components that are regularly reviewed by the chief operating decision maker. Only the disposal of a segment from the selected set of components would qualify as a discontinued operation under the revised definition. Disposal of a segment within the other set of components that does not constitute operating segments under IFRS 8 may nonetheless represent a strategic shift in the entity and consequently may warrant separate disclosure. Accordingly, the Board may want to consider whether additional disclosures may be appropriate for entities that follow a matrix form organization.

### **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.

### **Question 4**

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

We believe the transitional provisions are appropriate. However, we recommend that the Board clarify which operating segment structure applies in assessing whether a disposal group represents a discontinued operation. For example, should an entity apply its current operating segment structure to historical disposals or should the operating segment structure that was in place at the time of the disposal be used?

We believe that the assessment of whether a disposal group meeting the definition of a discontinued operation should be based on the operating segment structure in place at the time the disposal decision is made by management. After a disposal group is presented as a discontinued operation it should continue to be presented as such even if management subsequently changes its operating segment structure.