Deloitte.

October 2008 – Special edition

Audit

IAS Plus.

Published for our clients and staff throughout the world

Deloitte global IFRS leadership team

IFRS global office

Global IFRS leader
Ken Wild
kwild@deloitte.co.uk

IFRS centres of excellence

Americas

New York
Robert Uhl
iasplusamericas@deloitte.com

Montreal
Robert Lefrancois
iasplus@deloitte.ca

Asia-Pacific

Hong Kong
Stephen Taylor
iasplus@deloitte.com.hk

Melbourne
Bruce Porter
iasplus@deloitte.com.au

Europe-Africa

Johannesburg
Graeme Berry
iasplus@deloitte.co.za

Copenhagen
Jan Peter Larsen
dk_iasplus@deloitte.dk

London
Veronica Poole
iasplus@deloitte.co.uk

Paris
Laurence Rivat
iasplus@deloitte.fr

Proposed amendments regarding discontinued operations

In September 2008, the International Accounting Standards Board (IASB) published for public comment an Exposure Draft (ED) of proposed amendments to IFRS 5 **Non-current Assets Held for Sale and Discontinued Operations**. The ED was issued simultaneously with a proposed amendment to the equivalent US standard SFAS 144 **Accounting for the Impairment or Disposal of Long-Lived Assets**.

The ED is the result of a limited review of IFRS 5 and proposes to revise the definition of discontinued operations and to require additional disclosures regarding components of an entity that have been or will be disposed of.

Comments on the proposals are requested by 23 January 2009.

New definition for discontinued operation

Currently 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 that is:

- a separate major line of business or geographical area of operations to be disposed in a co-ordinated plan; or
- a subsidiary acquired exclusively with a view to resale.

A component of an entity (the definition of which is unchanged in the proposals) is comprised of operations and cash flows that can be clearly distinguished operationally and for financial reporting purposes from the rest of the entity (i.e. a cash-generating unit or a group of cash-generating units).

The new definition of discontinued operation proposed by the ED is more closely linked to IFRS 8 **Operating Segments** and IFRS 3 **Business Combinations** so that a discontinued operation would be defined as a component of an entity that is either:

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

It is likely that the proposed definition would result in fewer components being identified as discontinued. This is the Board's intent – as they suggest that the identification of an operation as discontinued should represent a major strategic shift in operations.

The proposal might seem appealing in that entities that fall within the scope of IFRS 8 (generally publicly listed entities) will already have identified their operating segments. However, there are three noteworthy points:

- the proposals would apply to all entities. Therefore, entities that have not previously been required to disclose segment information would be required to determine whether the component to be disposed of meets the definition of an operating segment;
- the information to be reported with respect to discontinued operations would be based on the amounts presented in the statement of comprehensive income (or separate income statement, where applicable) even if the segment information disclosed by an entity to comply with IFRS 8 is prepared on a different basis (i.e. the amounts reported to the chief operating decision maker); and
- some additional disclosures would be required for all 'components' of an entity (as defined above) disposed of or classified as held for sale – regardless of whether or not they are presented as discontinued operations.

Disclosures for discontinued operations

Discontinued operations would continue to be disclosed separately in the statement of comprehensive income (or separate income statement, where applicable). A single amount would be disclosed, comprising the total of:

- the post-tax profit or loss of discontinued operations; and
- 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 operations.

This amount would be analysed as follows (either in the statement of comprehensive income or in the notes):

i. the 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 income tax expense related to (i);

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 operations; and

iv. the income tax expense related to (iii).

The detailed analysis would not be required for businesses that meet the criteria to be classified as held for sale on acquisition.

Disclosures for all components disposed of or classified as held for sale (other than businesses that meet the held-for-sale criteria on acquisition)

The following disclosures would be required:

i. the profit or loss, together with major income and expense items constituting that profit or loss, including impairments, interest, depreciation and amortisation;

ii. whether the profit or loss in (i) is presented in continuing operations or in discontinued operations;

iii. if the component of an entity includes a non-controlling interest, the profit or loss attributable to the owners of the parent; and

iv. the major classes of cash flows (operating, investing and financing).

Effective date and transition

The effective date of these proposed amendments (if accepted) has not yet been determined. The IASB's project plan anticipates a revised Standard in the first half of 2009.

It is proposed that entities should be required to restate their statements of comprehensive income for all periods presented to reflect the revised definition of discontinued operation. Therefore, when an operation qualified as a discontinued operation in the prior period and was presented as such, but it does not meet the revised definition, the comparative statement of comprehensive income would be restated so as to present that operation within continuing operations. However, given the difficulties entities might face in applying the revised disclosure requirements retrospectively, particularly in instances where information is not available because components of an entity that were disposed of or held for sale did not previously meet the definition of a discontinued operation, the Board is proposing that the expanded note disclosures should be presented prospectively.

Designed and produced by The Creative Studio at Deloitte, London. 26927

Deloitte Touche Tohmatsu