IASB Meeting Week commencing 28 March 2011	IASB Agenda reference	3
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Project	**Financial Statement Presentation: Discontinued Operations**
Topic	**Publication of the Exposure Draft**

Introduction

1. The objective of this paper is to:

    (a) summarise the boards' decisions to date regarding discontinued operations;

    (b) assess the proposals against the criteria for inclusion in Annual Improvements and recommend the amendment not be included in the forthcoming Improvements to IFRSs exposure draft (IASB only); and

    (c) ask the boards' permission to proceed with the balloting process for publication of the exposure draft.

    A summary of the history of the discontinued operations (amendments to IFRS 5 *Noncurrent Assets Held for Sale and Discontinued Operations*) project is provided in Appendix A of this paper.

2. Assuming the boards ask the staff to proceed with the balloting process, this paper also discusses the comment period for the exposure draft.

This paper has been prepared by the technical staff of the IFRS Foundation and the FASB for discussion at a public meeting of the FASB or the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the FASB or the IASB.

Comments made in relation to the application of U.S. GAAP or IFRSs do not purport to be acceptable or unacceptable application of U.S. GAAP or IFRSs.

The tentative decisions made by the FASB or the IASB at public meetings are reported in FASB *Action Alert* or in IASB *Update*. Official pronouncements of the FASB or the IASB are published only after each board has completed its full due process, including appropriate public consultation and formal voting procedures.

Decisions to Date Regarding Discontinued Operations

Definition of Discontinued Operations

3. At the December 2009 joint meeting, the boards tentatively decided to revise the definition of discontinued operations as follows (The text is marked up from current IFRS 5):

   A discontinued operation is 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 major geographical area of operations,

   (b) is a part of a single co-ordinated plan to dispose of a separate major line of business or major 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~~.

4. Accordingly, for the IASB, the change to the definition of discontinued operations relates primarily to (c). This change was proposed in the 2008 ED, with the following rationale:

   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.

5. Most respondents to the 2008 ED agreed with this change.

6. For the FASB, changing the definition from one based on the operating segment notion to one based on current IFRS 5 still would lead to a relatively significant change to current US GAAP. However, respondents to the proposed FSP generally agreed with the direction to reduce the number of disposals that qualify as discontinued operations based on whether an entity has made a strategic shift in

operations. Adopting the definition in current IFRS 5 would alleviate the concerns raised by respondents when using the operating segment notion.

Continuing Involvement Disclosures

7. In their deliberations, the boards affirmed that the definition of a discontinued operation should not include a continuing involvement criterion (current US GAAP includes such criterion). However, the boards concluded that an entity should provide disclosures if it retains continuing involvement with the discontinued operation after the disposal because the information would be useful to users of financial statements.

8. The following items would be required to be disclosed for each discontinued operation that is presented in the financial statements in which an entity retains (or expects to retain) continuing involvement after the disposal date:

   (a) a description of the nature of the activities that give rise to the continuing involvement;

   (b) the period of time during which the involvement is expected to continue;

   (c) for all periods presented:

      (i) the amounts presented in continuing operations that before the disposal date were eliminated in consolidated financial statements as intragroup (intra-entity) transactions (including transaction amounts eliminated between the group and disposed equity method investments); and

      (ii) the amounts of any cash inflows or outflows to the discontinued operation after the disposal date.

9. Examples of continuing involvement include the following:

   (a) a supply and distribution agreement;

   (b) a financial guarantee;

   (c) the splitting or merging of a post-employment benefit plan; and

(d) an option to repurchase a discontinued operation.

Additional Disclosures

10. In their deliberations, the boards decided that the following information should be disclosed in the financial statements or in the notes for all current and prior periods in which an individually material component of an entity either has been disposed of or is classified as held for sale but does not meet the definition of a discontinued operation:

    (a) the pre-tax profit or loss; and

    (b) if the component includes a non-controlling interest, the pre-tax profit or loss attributable to owners of the parent.

11. Many respondents to the 2008 ED and the proposed FSP disagreed with the proposed disclosures for disposed components of an entity that do not meet the definition of a discontinued operation. These respondents said that the disclosures should be in less detail if the items are not presented separately in profit or loss (IASB) or net income (FASB) and expressed the view that proposed disclosures are excessive and are unlikely to be useful to users of financial statements.

12. US GAAP currently requires information about components of an entity that would not meet the proposed revised definition of a discontinued operation. When developing the 2008 ED, the IASB concluded that providing information about a disposed component of an entity that does not meet the definition of a discontinued operation would be useful to users of financial statements.

13. Preparers of financial statements that responded to the 2008 ED and the proposed FSP indicated that the proposed disclosures would be costly to prepare. These preparers were particularly concerned about providing disclosures for prior periods and questioned the usefulness of insignificant disposals. The boards decided to reduce the burden on preparers in two ways. The first was to require disclosures only for individually material disposals rather than all disposals. The second was to reduce the number of items to be disclosed for each individually

material disposal. The boards also noted that one aspect of disclosures that made it costly for preparers was the allocation of income taxes to the components of an entity disposed of. Accordingly, the boards decided to require only pre-tax information for individually material components of an entity disposed of that do not meet the definition of a discontinued operation.

14. The items that are currently required to be disclosed for discontinued operations under paragraph 32 of IFRS 5 will continue to be required.

Reconciliations of Amounts Presented in the Notes to the Amounts Presented in the Financial Statements

15. The boards have decided to require an entity to reconcile the amounts presented in the notes to the amounts presented in the financial statements.

16. Under current IFRSs or US GAAP, 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 are not required to be reconciled to the post-tax profit or loss from discontinued operations presented separately in profit or loss (IASB) or net income (FASB); and

   (b) for major classes of assets and liabilities classified as held for sale, the amounts disclosed in the notes are not required to be reconciled to the amounts presented separately in the statement of financial position.

17. 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 decided to require reconciliations in order to provide more useful and complete information. The information to present the reconciliations is readily available because it would be the same as the information needed for presenting profit or loss (IASB) or net income (FASB) and the statement of financial position.

18. Most respondents to the 2008 ED were silent on this issue.

Transition

19. The IASB decided that all amendments should be applied prospectively because the forthcoming exposure draft would propose only a minor change to the definition of a discontinued operation.

20. In the 2008 ED, the IASB had proposed that the revised definition of a discontinued operation be applied retrospectively. The IASB also had proposed that disclosures for periods prior to applying the amendments should be provided in accordance with the requirements applicable in those periods. Most respondents to the 2008 ED agreed with the IASB's proposal.

21. The FASB decided that prospective application would reduce the amount of time that entities would need to implement the amendments. Because the proposals were being reexposed, the FASB decided that it would be preferable for entities to implement the final guidance in a timely manner rather than allowing more time for retrospective application.

Scope (FASB Only)

22. Subtopic 205-20 excludes certain types of assets from the scope of discontinued operations, including goodwill, servicing assets, and unproved oil and gas properties that are being accounted for using the successful-efforts method of accounting.

23. For its classification and presentation requirements, IFRS 5 does not include scope exceptions for certain types of assets. It states that "the classification and presentation requirements of this IFRS apply to all recognised non-current assets and to all disposal groups of an entity."

24. In its redeliberations, the FASB reconsidered the scope exceptions in Subtopic 205-20 and decided that the definition of a discontinued operation should be used, and not the scope Section of Subtopic 205-20, to determine which proposals qualify for discontinued operations presentation. The FASB decided that this would simplify the application of the amendments and improve convergence. The

FASB noted that this change would have a limited effect other than for disposals of equity method investments because disposals of any of the other types of assets currently listed as scope exceptions in Subtopic 205-20 would, in most cases, not meet the definition of a discontinued operation.

25. The FASB discussed whether equity method investments should be excluded from the scope of discontinued operations. The FASB noted that some equity method investments are held for strategic operating purposes and, therefore, might qualify for discontinued operations if they are significant to the entity. Other equity method investments might be for investment purposes only and should not qualify as discontinued operations if they are sold. Therefore, the FASB concluded that the scope exception for equity method investments in Subtopic 205-20 should be eliminated and an entity should determine whether an equity method investment qualifies as a discontinued operation based on the revised proposed definition. The FASB also noted that this would improve convergence.

Publication of the Exposure Draft

Criteria assessment for Annual Improvements *(IASB Only)*

26. In November 2010, the IASB discussed the possibility of issuing the exposure draft as part of the annual improvements process. The criteria for the inclusion of an amendment within the annual improvements process have been modified by the Trustees in February 2011. Appendix B to this paper reproduces those criteria.

27. The staff notes that the proposed changes to IFRS 5 contain a change in definition and additional new disclosures which the staff thinks are neither a clarification nor a correction (see criterion (a) of paragraph 65A of the Due Process Handbook for the IASB reproduced in Appendix B to this paper). Based on this conclusion, the staff does not consider it necessary to further analyse the rest of the qualifying criteria for *Annual Improvements*. In addition, the staff notes that no Discussion Paper is needed because it is not a major new topic.

28. Accordingly, the staff thinks that the exposure draft should be published separately from the annual improvements process.

Recommendation to proceed with the balloting process

29. In April 2010, all 15 IASB members and 5 FASB members agreed that the exposure draft should be published. At the IASB, three Board members have changed since then. At the FASB, one board member has changed and two board members have joined the FASB. Nevertheless, the staff thinks that there is still sufficient support from both IASB members and FASB members to proceed with the publication of the exposure draft in the second quarter of 2011. The staff would like to ask the boards if they agree with the amendments proposed and, if so, the staff would like to ask the boards' permission to proceed with the balloting process.

Questions 1 and 2
1. Do you agree that an exposure draft on discontinued operations (amendments to IFRS 5) should be published separately from the annual improvements process? 2. Do you agree that an exposure draft on discontinued operations (amendments to IFRS and Subtopic 205-20) should be published in the second quarter of 2011 and, therefore, the staff should proceed with the balloting process?

Comment Period

30. Assuming the boards agree with the staff recommendation in Question 1, the next question would be about the comment period for the exposure draft.

31. In January 2010, the boards agreed to a 60-day comment period. The IASB acknowledged that the normal comment period is 120 days. However, given that the only new proposal was the continuing involvement disclosures and that other changes to the 2008 ED would revert to current IFRS 5, the IASB concluded that a

60-day comment period could be justified. This decision was consistent with the FASB's decision.

32. Paragraph 100 of the IASB's Due Process Handbook states:

> The IASB normally allows a period of 120 days for comments on its consultation documents. For exposure drafts, if the matter is exceptionally urgent, the document is short, **and** the IASB believes that there is likely to be broad consensus on the topic, the IASB may consider a comment period of no less than 30 days.[emphasis added]

33. The staff is of the view that, although the exposure draft would be short and there is likely to be broad consensus on the topic, it would be difficult to argue that the proposals are exceptionally urgent. Accordingly, the staff thinks the comment period should be 120 days.

34. Paragraph 122 of the FASB's Reference Manual states:

> A comprehensive amendment of a major Topic of Subtopic within the Codification generally would be exposed for a period of 60 days or longer.
>
> An amendment that changes, interprets, or provides application guidance in a narrower area generally would be exposed for a period of 25 days or longer.

35. The staff is of the view that the proposed changes represent a comprehensive amendment of Subtopic 205-20 and, therefore, thinks the comment period should be 60 days or longer.

36. The discontinued operations project is a joint project and the staff thinks the comment should be aligned between the boards. Accordingly, the staff recommends 120 days as the comment period for both boards.

37. The staff thinks the exposure draft could be issued in the second quarter of 2011. Based on the latest work plan, the IASB plans to publish exposure drafts on Consolidation (Investment Companies) and Annual Improvements in the second quarter of 2011. Assuming the boards agree with the 120-day comment period, the staff plans to begin redeliberations in September or October. Based on the latest technical plan, the FASB plans to publish exposure drafts on Consolidation (Investment Companies), Investment Properties, and one EITF issue.

38. Although it would depend on the comments the boards will receive on the exposure drafts, the staff currently thinks that the final standard could be issued by the end of 2011. Under this timetable, it is likely that the amendments would be effective no earlier than 1 July 2012.

Question 3
3. If an exposure draft on discontinued operations should be issued, do you agree that the comment period should be 120 days?

Appendix A – History of the Discontinued Operations Project

A1. The IASB issued IFRS 5 in 2004 as a 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 in FASB Statement No. 144, *Accounting for the Impairment of Disposal of Long-Lived Assets* (SFAS 144) (currently Subtopic 205-20 of the FASB Accounting Standards Codification™ (the Codification)), as they relate to assets held for sale and discontinued operations.

A2. Although IFRS 5 led to substantial convergence with US GAAP, the boards' definitions of discontinued operations remained different. During its deliberations that led to IFRS 5, 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.

A3. 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 (replacement of IAS 1 *Presentation of Financial Statements* and IAS 7 *Statement of Cash Flows*) project but jointly as a project on discontinued operations.

A4. In September 2008 the IASB published Discontinued Operations (an exposure draft of proposed amendments to IFRS 5) (the 2008 ED). At the same time, the FASB issued a proposed FASB Staff Position FAS 144-d, *Amending the Criteria for Reporting a Discontinued Operation* (the proposed FSP). With these two documents, the boards intended to achieve convergence in reporting discontinued operations.

A5. In the 2008 ED and the proposed FSP the boards proposed 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* (currently Topic 280 of the Codification), 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 as discontinued operations.

A6. The comment period for the 2008 ED and he proposed FSP ended on 23 January 2009. The IASB received 62 comment letters and the FASB received 22 comment letters. After considering the comments the IASB received on the 2008 ED and the comments the FASB received on the proposed FSP, the boards decided to propose a revised definition of discontinued operations and disclosures about components of an entity that have been disposed of or are classified as held for sale. The boards agreed that the revised proposals should be exposed for public comment.

A7. In 2009, the discontinued operations project was subsumed into the broader project on financial statement presentation (replacement of IAS 1 and IAS 7). The target publication date of the exposure draft was set to June 2010, but the boards decided not issue an exposure draft. Instead, a staff draft of the exposure draft was posted on the IASB website in July 2010. The FASB did not post a staff draft of the exposure draft.

A8. In November 2010, the boards decided again to spin off the discontinued operations portion of the project from the broader project on financial statement presentation. The boards plan to issue their exposure drafts at the same time.

Appendix B – Qualifying assessment criteria for Annual Improvements

B1 Below are reproduced for ease of reference paragraphs 65A and 65B of the Due Process Handbook for the International Accounting Standards Board as amended by the Trustees in February 2011:

> 65A In planning whether an issue should be addressed by amending IFRSs within the annual improvements project, the IASB assesses the issue against the following criteria. All criteria (a)–(d) must be met to qualify for inclusion in annual improvements.
>
> (a) The proposed amendment has one or both of the following characteristics:
>
> (i) clarifying—the proposed amendment would improve IFRSs by:
>
> - clarifying unclear wording in existing IFRSs, or
> - providing guidance where an absence of guidance is causing concern.
>
> A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle.
>
> (ii) correcting—the proposed amendment would improve IFRSs by:
>
> - resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirement should be applied, or
> - addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs.
>
> A correcting amendment does not propose a new principle or a change to an existing principle.
>
> (b) The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.
>
> (c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach a conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.
>
> (d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.
>
> 65B The IASB assesses annual improvements against the criteria in paragraph 65A before they are published in an exposure draft and before they are issued as amendments to IFRSs.