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*Le Président*

JFL/IGG

N° 5

PARIS, 27 JANUARY 2009

**IASB**

**30 Cannon Street**

**LONDON EC4M 6XH**

**UK**

Re : Exposure Draft of Proposed Amendments to IFRS 5 “Discontinued Operations”.

Dear Sir or Madam,

I am writing on behalf of the Conseil National de la Comptabilité (CNC) to express our views on the above-mentioned Exposure Draft. Our answers to the issues are set out in the Appendix to this letter.

We are not supportive of the proposed new definition of discontinued operations as we consider that the stated objective of discontinued operations of reflecting strategic shifts is actually better represented by current IFRS 5 guidance.

Moreover, we consider that requiring disclosures for discontinued operations which do not meet the proposed definition indicates that the new definition is not robust enough in achieving IFRS 5’s original objective of providing users with information which is relevant in assessing the ongoing ability of the entity to generate cash flows.

Further details are provided in the Appendix to this letter.

We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Jean-François Lepetit

## Appendix

### 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) 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?*

The CNC supports the IASB's efforts in trying to achieve a converged definition of discontinued operations with the FASB.

We are however not supportive of the proposed new definition in the Exposure Draft although we recognise that :

- calibrating discontinued operations along the definition of operating segments as defined by IFRS 8 would present the advantage of ensuring consistency and cohesiveness between the following standards : IFRS 8, IAS 36 and IFRS 5;

- it would also enhance the objectiveness of the scope of discontinued operations by simplifying it in such a way that it corresponds to a disaggregation of an entity's activities which is actually monitored by management, especially through available discrete financial information, thus reducing costs in producing the numbers. The current definition in IFRS 5 has, in practice, sometimes resulted in significant work and costs in order to segregate the relevant data.

As indicated in our cover letter, the CNC is not supportive of the proposed new definition of discontinued operations for the reasons listed below :

- One of the objectives of separately highlighting the results of discontinued operations as stated in IFRS 5.BC 62 is to “provide users with information which is relevant in assessing the ongoing ability of the entity to generate cash flows”. Based on the new proposed definition, when a company reports its operating segments by businesses, and should it discontinue a significant geographic area, that particular discontinuance would therefore not be included in the separate line in the statement of comprehensive income or separate income statement. Conversely, if segment reporting is based on geographical areas with respect to businesses. Thus we do not think that the stated objective of capturing “strategic shifts” (which the IASB refers to in both its introduction to the ED and in its BC 7(a)) would be met through separate presentation of operating segments.
- As IFRS 8 is not yet mandatorily applicable, we have no historical evidence nor experience to assess whether the proposed definition would actually result in larger discontinued operations being presented separately. We understand from the reference in ED IFRS 5.32A to IFRS 8.5-10 that operating segments should be understood as prior to aggregation (which is consistent with the proposed amendment to IAS 36 in the August 2008 Exposure Draft on Annual Improvements to IFRS, which the CNC was in favour of). As disclosures under IFRS 8 are mandatory for those operating segments which exceed certain quantitative thresholds, discontinued operations as per the proposed definition could actually encompass small operating segments which are not presented separately in the notes to the financial statements because :
  - o they are either aggregated with other operating segments (as per IFRS 8.12) and included in a reportable segment or
  - o they do not meet the thresholds and the entity does not voluntarily disclose them.

Based on this, we are unsure that the proposed definition always meets the “strategic shift” criterion which the IASB refers to, reflecting the fact that some entities might actually monitor non-strategic businesses separately. We are unsure of the Board’s objective in this respect as we understand from ED IFRS 5.BC7 that the current definition appears to include small discontinued operations.

We therefore consider that IFRS 5 current guidance better reflects the Board’s objective.

#### *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?*

Under current IFRS 5 guidance, which the CNC prefers retaining, this is not an issue.

However, and although the proposal appears a bit awkward, the CNC agrees with the fact that it would be feasible for an entity which is not required to apply IFRS 8 to apply the proposed new definition as it would have some type of management approach disaggregation of its business based on its internal reporting system (which is independent from whether the entity is listed or not), or would not and therefore would not fall under the scope of IFRS 5. We understand that if the Board had simply referred to the notion of “operating segments”, applying the standards hierarchy as per IAS 8 would have led the entity to consider IFRS 8 anyhow, as it is part of current IFRS literature.

## **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.*

### *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?*

The CNC agrees with the proposal as the objective is to present information within the statement of comprehensive income or separate income statement. Thus, the amounts presented within that statement should necessarily be in compliance with IFRS, which is the case under current IFRS 5 guidance.

The CNC would however prefer a clearer wording such as “should be in compliance with IFRS as in the statement of comprehensive income or separate income statement”.

## **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?*

The CNC does not support the proposed disclosure requirements, on the basis that if operations are not deemed significant enough to be presented separately in the statement of comprehensive income or separate income statement, they should not be required to be presented in terms of disclosures. Requiring such disclosure is to us an indication that the proposed new definition is not robust enough in achieving IFRS 5’s main objective. For further detail, please refer to our answer to question 1(a).

### *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?*

The CNC agrees with the proposal to exempt from disclosures the businesses that meet the criteria to be classified as held for sale on acquisition on the basis that such businesses have never been included in continuing operations in the entity's financial statements.

### **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.*

### *Question 4*

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

As the CNC is not supportive of the proposed amendments, this question is not relevant.

Having said that, in considering any new definition with respect to discontinued operations, the CNC would not agree with the retrospective application of such definition to the separate line in the statement of comprehensive income or separate income statement for the following reasons :

- the objective of IFRS 5 is to provide predictive information in estimating future cash flows. We consider that restating prior periods is of little interest in that respect ;
- comparability would actually not be improved through restatement of prior years. Assuming that previously discontinued operations were not compliant with the proposed definition, reinstating such discontinued operations within the 'continuing operations' would in effect reduce comparability from one year to the next as these discontinued operations would probably not affect the latest period anyhow.

Should the Board maintain the disclosures as they currently are proposed, the CNC supports the prospective application of the disclosures.