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Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaçào Internacional das Comissões de Valore

January 8, 2009

International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

RE: Exposure Draft of Proposed Amendments to IFRS 5 *Discontinued Operations*

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) appreciates the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) September 2008 Exposure Draft of Proposed Amendments to IFRS 5 *Discontinued Operations* (the Exposure Draft or the ED).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observation

As a general matter, we note that the amended definition of "discontinued operations" is based on the definition of "operating segments" in IFRS 8 *Operating Segments*. However, because IFRS 8 has not yet been widely adopted, our comments, as a consequence, are more limited in nature.

In addition, Standing Committee No. 1 does not have comments on all of the proposed amendments in the Exposure Draft. Accordingly, we have only responded below to certain of the Board's questions in the Exposure Draft.

Responses to the Board's Questions

Question #1(a): *Do you agree with the proposed definition? Why or why not? If not, what definition would you propose, and why?*

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We agree with the Board's view that "a disposal activity should be presented as a discontinued operation only when an entity has made a strategic shift in its operations." However, we are concerned that the proposed definition is inconsistent with this view, as we do not believe that all operating segment disposals (or held for sale classifications) necessarily represent a strategic shift in an entity's operations. For example, consider a retailer that has determined each of its stores to be an operating segment. If this retailer disposes of one store, with the expectation that most customers will migrate to its other stores, we would question whether the retailer has truly undergone a strategic shift in its operations. Discontinued operations presentation in this fact pattern may not be useful to investors, as the retailer expects its cash flows to continue relatively unchanged. In fact, discontinued operations presentation of the disposed store would give the appearance in subsequent periods that the retailer has increased its cash flows from continuing operations, when, in reality, the cash flows had always existed.

Accordingly, we recommend that the definition emphasize the principle of a strategic shift in an entity's operations, and allow for judgment in its application. To facilitate comparability among entities, we also recommend that the IASB provide factors and/or examples to clarify this principle. For example, the disposal (or held for sale classification) of an operating segment could be the starting point of a discontinued operations analysis. However, an entity should also be required to consider the nature and extent of continuing involvement, such as ongoing cash flows, guarantees, and other rights and obligations associated with the disposed (or held for sale) operating segment.

Question #2: *Do you agree 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 that the amounts presented for discontinued operations should be based on the amounts presented in the statement of comprehensive income. However, we encourage the Board to jointly consider with the FASB whether the proposed measurement guidance is sufficient for convergence of IFRS and U.S. GAAP. For example, as discussed above, the role of continuing involvement on the measurement of discontinued operations is unclear.

SC1 would also like to highlight a difficulty with current assets and liabilities included in disposal groups, which relates to the measurement principles applicable to these items. IFRS 5.4 states that if a non-current asset within the scope of IFRS 5 is part of a disposal group, the measurement requirements of IFRS 5 apply to the group as a whole, so that the group is measured at the lower of its carrying amount and fair value less costs to sell. The requirements for measuring the individual assets and liabilities within the disposal group are set out in paragraphs 18, 19 and 23. IFRS 5.18 states that immediately before classification of the disposal group as held for sale, the carrying amounts of all the assets and liabilities in the group shall be measured in accordance with applicable IFRSs. On subsequent remeasurement of the disposal group, according to paragraph 19, applicable IFRSs shall also be used to measure current assets included in the group. Paragraph 23 states that the impairment loss recognized for a disposal group shall reduce the carrying amount of the non-current assets in the group that are within the scope of IFRS 5, in the order of allocation set out in paragraphs 104(a) and (b) and 122 of IAS 36. The application of these requirements may in certain circumstances (in cases where the impairment rules described above apply) result in all non-current assets included in the scope of IFRS 5 being valued at zero, while the net carrying amount of the current assets and liabilities included in the disposal group still exceeds the fair value less costs to sell of the group. This may be the case for instance when the market value takes into account risks or contingent liabilities which cannot be accounted for according to IAS 37. There seems to exist divergence in practice in the way this kind of situation should be accounted for. Therefore, we believe clarification is needed in this area on whether

the additional impairment should be allocated to the current assets in the disposal group so that the net carrying amount of the group equals its fair value less costs to sell, or on whether the difference should not be accounted for (but additional disclosures would be requested).

Question #3(a): *Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes would you propose, and why?*

We generally agree with the proposed disclosure requirements. However, we recommend that the disclosures for components held for sale in paragraph 41A be required for all periods presented. We believe this information would be useful to investors in assessing financial trends, particularly if the revised definition of “discontinued operations” results in a reduction in the number of items presented as discontinued.

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 generally agree with the disclosure exemptions for businesses that meet the criteria to be classified as held for sale on acquisition. However, we recommend that such businesses also be exempt from the requirement to disclose the “reportable segment in which the non-current asset (or disposal group) is presented in accordance with IFRS 8” in paragraph 41(d) of the Exposure Draft. We believe that such businesses are unlikely to be assigned to a reportable segment subsequent to their acquisition, given that they are expected to be sold. We also believe this disclosure will provide little benefit to users of financial statements.

Question #4: *Are the transitional provisions appropriate? Why or why not? If not, what would you propose, and why?*

We note that in paragraph 43A(c) of the Exposure Draft, the Board states that “an entity is not required to provide the revised disclosures for components of an entity that have been disposed of or were classified as held for sale in periods before the [draft] amendments are applied.” We recommend that this language be rephrased to “require the revised disclosures...in periods before the [draft] amendments are applied, if practicable.” We note that some entities may have sufficient information to provide these disclosures for periods prior to the effective date of the amended standard, but, based on the current language, an entity may choose not to include such disclosures. We further note that these disclosures would be useful to investors in assessing financial trends.

Other:

We also recommend the following technical revisions to the Exposure Draft or to the existing provisions of IFRS 5:

- 1) Paragraph 33B – consider whether the reference to paragraph 33(b) in the Exposure Draft should be “33(b)(i).”
- 2) Paragraph 36 – consider whether this paragraph should also refer to paragraphs 38 and 41A and be placed after paragraph 41A in the Exposure Draft. Paragraph 36 provides guidance in situations where a component ceases to be held for sale. However, this paragraph appears in the section on presenting discontinued operations, although it appears to apply equally to disposed component disclosures that may be made on the face of the financial statements.

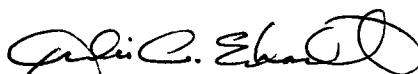
- 3) Throughout the Exposure Draft and the existing standard, consider whether use of the word “subsidiary” should be changed to “business” or “operating segment.” For example, in example 9 in the Exposure Draft, it appears that “subsidiary” should be changed to “business.” Similarly, in paragraph 8A of IFRS 5, it appears that “subsidiary” should be changed to “operating segment.”

In addition, we recommend that the Board consider whether the definition of “operating segment” in IFRS 8 requires revision in light of the definition of “business” in IFRS 3R *Business Combinations*. For example, consider deleting “revenues” since activities are not required to generate revenues to meet the definition of a “business,” or deleting “business” such that the definition simply refers to “activities.”

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We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,



Julie A. Erhardt

Chair

IOSCO Standing Committee No. 1