



10 November 2008

To: **Members of the Hong Kong Institute of CPAs**  
**All other interested parties**

**INVITATION TO COMMENT ON IASB EXPOSURE DRAFT OF PROPOSED  
AMENDMENTS TO IFRS 5 – DISCONTINUED OPERATIONS**

***Comments to be received by 6 January 2009***

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments on the IASB Exposure Draft which has been posted on the Institute's website at:

[www.hkicpa.org.hk/professionaltechnical/accounting/exposedraft/content.php](http://www.hkicpa.org.hk/professionaltechnical/accounting/exposedraft/content.php).

The Exposure Draft is the result of a joint project by the IASB and the US Financial Accounting Standards Board (FASB) (collectively the boards) to develop a common definition of discontinued operations and require common disclosures in respect of components of an entity that either have been disposed of or are classified as held for sale. The Exposure Draft is a limited review of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Broadly speaking, discontinued operations are operations that an entity has disposed of or holds for sale. Entities present discontinued operations separately from continuing operations because of the ongoing cash flows that continuing operations will generate. By adopting a definition for discontinued operations that reflects the definition of operating segments in IFRS 8 *Operating Segments*, the proposals would also increase consistency between IFRSs and strengthen the basic principle in IFRS 5.

The proposed definition could result in fewer items being recognised in financial statements as discontinued operations than at present. However, the additional disclosures would give information about components of an entity that have been disposed of or are held for sale but do not meet the definition of a discontinued operation.

--- A summary of the main proposals in the Exposure Draft is set out in the Appendix.

In accordance with the Institute's Convergence Due Process, comments are invited from any interested party. The FRSC would like to hear from both those who do agree and those who do not agree with the proposals contained in the IASB Exposure Draft.

Comments should be supported by specific reasoning and should be submitted in written form.

To allow your comments on the IASB Exposure Draft to be considered, they are requested to be received by the Institute on or before **6 January 2009**.

Comments may be sent by mail, fax or e-mail to:

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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

## **Summary of the main proposals in the Exposure Draft**

### **(1) New definition for discontinued operation**

The Exposure Draft proposes that a component of an entity be classified as a discontinued operation when it is:

- (a) an operating segments as defined in IFRS 8 *Operating Segments* that either has been disposed of or is classified as held for sale; or
- (b) a business as defined in IFRS 3 *Business Combinations* 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. The basis for the proposals is a decision made by the boards that the presentation of discontinued operations should be linked to a strategic shift in the operations of an entity.

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.

### **(2) 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) A single amount would be disclosed, comprising the total of:
  - (i) the post-tax profit or loss of discontinued operations; and
  - (ii) 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.
- (b) 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.



### **(3) Disclosures for all components disposed of or classified as held for sale**

The Exposure Draft proposes additional disclosures about all components of an entity that have been disposed of or are classified as held for sale, other than businesses that meet the held-for-sale criteria on acquisition:

- (a) the profit or loss of the component, together with major income and expense items constituting that profit or loss, including impairments, interest, depreciation and amortisation;
- (b) whether this profit or loss is presented in continuing operations or in discontinued operations;
- (c) the profit or loss attributable to the owners of the parent, if non-controlling interests are included in the component; and
- (d) the major classes of cash flows (operating, investing and financing).