

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
UK

Paris, January 23, 2009

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

Dear Madam/Sir

Mazars is pleased to comment on the Exposure Draft of Proposed Amendments to IFRS 5 *Discontinued Operations* (the Exposure Draft).

This Exposure Draft contains proposals to revise the definition of discontinued operations and require additional disclosure related to all components of an entity that have been (or will be) disposed of. If adopted, these proposals will enable achieving convergence since they are part of a joint project between the IASB and the FASB.

We are broadly supportive of the Boards' initiative to adopt a common definition of "discontinued operations" based on the definition of operating segments in IFRS 8 *Operating segments*. We believe this new definition will make it easier to determine whether a disposal group should be presented as a discontinued operation or not. Nonetheless, we are unsure whether the new definition of a discontinued operation will, in all cases, enable identifying the strategic shifts in an entity's operations.

Besides, we strongly disagree with the proposal requiring additional disclosure related to all components of an entity that have been (or will be) disposed of – regardless of whether the component of an entity is presented as a discontinued operation or within continuing operations. We believe this proposal is counter-productive insofar as it will lead to a flood of irrelevant information regarding disclosures on components of an entity that are not significant to the users of financial statements.



M A Z A R S

Our detailed answers to the questions raised in the Exposure Draft are presented in the attached appendix.

We would be pleased to discuss our comments with you and are at your disposal should you require further clarification or information.

Yours sincerely,

A handwritten signature in black ink, appearing to read "M. Barbet-Massin".

**Michel Barbet-Massin**

Head of Financial Reporting Technical Support

**Appendix to our letter on IASB Exposure Draft of Proposed Amendments to IFRS 5  
Discontinued Operations**

**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.*

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

We welcome the Boards' initiative to propose a revised definition of a discontinued operation which shall lead to greater consistency among financial statements. Actually, we note that the current definition leaves room to a large part of interpretation. It is not always easy to tell whether a component of an entity that either has been disposed of or is classified as held for sale represents a separate major line of business or geographical area of operations. In practice, many groups have used the guidance included in IAS 14, *Segment reporting*, to identify which operations should be treated as discontinued. Thus, we believe referring to the notion of *operating segment* as defined in IFRS 8 will solve most issues companies encounter.

Besides, we think the notion of *operating segment* – which is a component of an entity whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance – is coherent with the goal of IFRS 5 to identify the strategic shifts in an entity's operations.

However, we fear this definition may, in some cases, constitute too rigid a frame. For instance, some disposals may be viewed as strategic by an entity when they will significantly impact its profitability. Though, if the disposal group at stake is not an operating segment, it will not be identified as a discontinued operation in application of the new definition. We believe this is not in line with the necessary predictive value of financial information both Boards have put forward in the Discussion Paper *Preliminary Views on Financial Statement Presentation* (comments to be submitted by 14 April 2009). Thus, even if it is too early to tell whether the application of IFRS 8 will lead to the identification of a large number of operating segments or not, we fear some operations may no longer qualify as discontinued whereas a separate disclosure within the statement of comprehensive income would lead to a greater predictive value of financial statements.

Nevertheless, since IFRS 8 enables an entity to change the composition of its reportable segments if it has changed the structure of its internal organisation (imposing the corresponding information for earlier periods, including interim periods, to be restated), we are of the opinion that an entity might want to change its operating segments to cover all strategic shifts in its operations, in case a significant disposal would not otherwise have been considered as a discontinued operation.

Finally, we would suggest that the Boards precise that the notion of operating segment in IFRS 8 is before aggregation, as it has been proposed in the Exposure Draft of Proposed Improvements to IFRSs (comments to be received by 7 November 2008) in relation with the proposed amendment to IAS 36, *Impairment of Assets*.

**(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 which is not required to apply IFRS 8?**

Since an operating segment is defined in IFRS 8 as a component of an entity whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, we believe an entity which is not required to apply IFRS 8 will nonetheless be able to determine whether the component of an entity meets the definition of an operating segment. This is because every entity runs its businesses, with the help of reporting packages and segment information.

**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.*

**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?**

We agree that the amounts presented for discontinued operations should be based on the amounts presented in the statement of comprehensive income (i.e. determined applying IFRSs). The use of non-GAAP measures to report discontinued operations would be inconsistent with the basis of preparation/calculation of the amounts presented for continuing operations.

Besides, we think it would be useful to add a paragraph stating that an entity should not present in the note on operating segments non-GAAP measures relating to discontinued operations, or disposal groups that are classified within continuing operations. Otherwise, the use of non-GAAP measures outside the statement of comprehensive income for continuing/discontinued operations may confuse readers of financial statements.

**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.*

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

We do not agree with the proposed disclosure requirements since we believe they will considerably increase the burden of preparers at no additional benefit for the users of financial statements.

In our opinion, if a component of an entity that has been disposed of or is classified as held for sale does not meet the new definition of a discontinued operation, mostly this will indicate that the disposal corresponds to a component that was not critical to the company. Thus, we do not see any interest in disclosing, for instance, the major income and expense items constituting the profit or loss associated with the sale (including impairments, interest, depreciation and amortisation), if the component is not significant. In our opinion, this proposal will lead to swamp the users of financial statements with information that is neither relevant nor useful.

Besides, we would also disagree on the proposal (not currently made in this exposure draft) that, if a company decides – on a voluntary basis – to disclose somehow information related to a component that is part of its continuing activities, it should refer to the disclosure requirements for discontinued operations. While we understand this would prevent from having financial information that is not comparable from one entity to another, we are nevertheless not in favour of forcing companies to conform to a model of disclosures in every situation.

Considering the proposals made by the Board, we finally believe the current IFRS 5 should not be modified with reference to disclosure requirements.

**(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 agree with the disclosure exemption for businesses that meet the criteria to be classified as held for sale on acquisition. This is because such information is not critical when a resale of a business has been announced and planned. Also, it may not be easy to gather the information required in paragraph 41A in a context of resale in a short time period.

Besides, this exemption is in line with the existing exemption relating to a subsidiary acquired exclusively with a view to resale.

**Question 4— 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.*

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

We disagree with the proposal since we believe all amendments to the current standard should be applied prospectively. Indeed, even if it seems feasible to reclassify the amounts in the statement of comprehensive income on the basis of the revised definition of discontinued operations for all periods presented, we do not think it makes sense to do so.

First, discontinued operations are one-off operations: specific presentation and disclosures related to such operations are relevant within the period when the decision of disposal was made or when the disposal occurred. We do not see any interest in restating prior years' financial statements regarding operations that no longer have effects on the financial statements of the current period (except, in few cases, for residual adjustments).

Second, we believe it would be irrelevant to change the scope of discontinued operations afterwards, since financial communication for previous periods intended to explain major changes in an entity's activities. The distinction between continuing/discontinued operations is critical to management commentary; to restate all figures and change explanations for previous periods would be, in our opinion, misleading and create an excessive workload..