

January 23, 2009

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

Dear Sir or Madame,

**Comments on the EXPOSURE DRAFT
“Discontinued Operation, proposed amendments to IFRS 5”**

We appreciate the efforts of the International Accounting Standards Board (IASB) on the Non-current assets held for sale and discontinued operations project for many years and welcome the opportunity to provide comments on the Exposure Draft (the ED) “Discontinued Operation, proposed amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*”. The following comments are those of the Technical Committee for Financial Statement Presentation of the Accounting Standards Board of Japan (ASBJ). This technical committee is composed of financial statement users, preparers and auditors who are market constituents, academics and board members and staffs of ASBJ.

Definition of 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.

Question 1(a)

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

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?

Direction of amendment for the definition of Discontinued Operations

1. We understand that IASB and US Financial Accounting Standards Board (FASB) are developing a common definition of discontinued operations based on the view that the size of unit classified as discontinued in accordance with FASB Statement No.144 *Accounting for the Impairment or Disposal of Long-lived Assets* (SFAS 144) is too small (BC3). A definition of discontinued operations which results in too small size of unit being classified as discontinued would place undue burdens on preparers, including re-presentations of the statement of comprehensive income or the separate income statement (hereafter we use “the statement of comprehensive income” as referring to also the separate income statement). Furthermore, financial information which might be frequently re-presented would be less useful to users. Therefore, we support the convergence of the definition based on the view in the ED.

An operating segment that either has been disposed of or is classified as held for sale

2. We are of the view that, when an entity has made a strategic shift in its operation, financial information which presents a disposed activity as a discontinued operation would be useful for users. On this point, we agree with the view of the ED that disposal of an operating segment would most likely indicate a strategic shift in an entity’s operations, because the determination of operating segments is based on how the chief operating decision makers make decisions about allocating resources and assessing performance (BC7(a)). Therefore, we agree with the proposal of the ED that the definition of discontinued operations should be based on an operating segment defined in IFRS 8.

A business that meets the criteria to be classified as held for sale on acquisition

3. In addition, we agree with the view of the ED that presentation issues related to a subsidiary

acquired exclusively with a view to resale should apply not only to a subsidiary but also to all acquisitions of business, and the presentation should not differ according to the legal form (BC14). Therefore, we agree with the proposal of the ED (paragraph 32(b)) to change “a subsidiary acquired exclusively with a view to resale” in IFRS 5 to “a business that meets the criteria to be classified as held for sale on acquisition”.

Application for an entity not required to apply IFRS 8

4. We consider it inappropriate to use different definitions of discontinued operation depending on whether an entity is required to apply IFRS 8. Furthermore, we consider that internal units of an entity used by its management to make decisions and assess performance would be also important for many of the entities not required to apply IFRS 8. Therefore, we agree with the proposed requirement of the ED (paragraph 32A) for those entities.

Amounts presented for discontinued operations

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?

5. We are of the view that the amounts presented for discontinued operations should be measured in the same manner as the other items in the statement of comprehensive income, because they are presentation in the face of that statement. Therefore, we agree with the proposal of the ED (paragraph 33) that the amounts of discontinued operations should be determined using the IFRSs used to determine the amounts presented in the statement of comprehensive income.
6. With respect to the concern that different amounts would be disclosed between segment reporting and the statement of comprehensive income as a result of this proposed amendment, we note that IFRS 8 requires reconciliation of the amounts presented in segment reporting to the amount presented on the face of the financial statements. We support the proposal of the ED

also in this point.

7. However, some argue that it is necessary to add mentions that there are cases where allocations on a reasonable basis are needed for determining the amounts of corporate expense, interest expense, income tax expense or others for discontinued operations.

Disclosures for all components of an entity that have been disposed of or are classified as held for sale

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?

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?

Disclosure for components of an entity that have been disposed of or are classified as held for sale

8. With regard to Question 3(a), some preparers express a concern that it might place burdens on preparers, which would be undue from the viewpoint of costs and benefits, to require the disclosure pursuant to paragraph 41A not only for a component of an entity classified as a discontinued operation but also for a component classified within continuing operations. Considering such a concern, we suggest that the Basis for Conclusions should at least include an explanation about the reason why those disclosures were newly required 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). We cannot find a sufficient explanation about the reason for requiring those disclosures in spite of the IASB's judgment that the size of unit classified as discontinued in accordance with SFAS 144 was too small.

Unit of the disclosure required by paragraph 41A

9. With regard to the disclosure requirement of paragraph 41A, the ED is silent as to whether components of an entity could be aggregated. We consider that it should be clarified that an

entity is allowed to aggregate its components in some cases. Paragraph 41A(b) of the ED proposes that an entity shall disclose information as to whether the profit or loss of components of an entity that have been disposed of or are classified as held for sale is presented in continuing operations or in discontinued operations. Considering this requirement, our understanding is that an entity is required to separate related components based on whether its profit or loss is presented in continuing operations or in discontinued operations, although the ED does not state clearly. We consider it necessary to add some guidance about unit of disclosures required by paragraph 41A, even though detailed criteria for aggregation are not necessary.

Re-presentation of the disclosures in paragraph 41A for prior periods

10. The ED proposes that disclosure requirements for the profit or loss attributable to owners of the parent and the cash flow information from discontinued operations are subsumed in paragraph 41A. However, as a result of amendments of these proposals, these disclosure requirements will be excluded from application of 34A which requires re-presentation for prior periods presented in the financial statements. Therefore, if IFRS 5 is amended by the proposal of the ED, these disclosures would not be re-presented. Some users express a concern that these information about discontinued operations would no longer be provided. If these figures are to be re-presented in response to that concern, it would be appropriate to retain paragraph 33(c) and (d) of the existing IFRS 5 and exempt components of an entity classified as discontinued operations from applying paragraph 41A. However, some preparers argue that it is unnecessary to require re-presentation of such information, from the viewpoint of cost and benefits.
11. In addition, the requirement of paragraph 41A(a) of the ED appears to duplicate with the requirement of paragraph 33(b), because it requires disclosure of major income and expense items for a component of an entity that has been either disposed of or classified as held for sale regardless of whether it is presented as a discontinued operation or within continuing operations. Such duplication could be avoided by exempting a component of an entity classified as discontinued operations from applying paragraph 41A, as suggested above.

Disclosure exemptions for businesses that meet the criteria to be classified as held for sale on acquisition

12. In our understanding based on paragraphs BC12 to BC17 of the Basis of Conclusions, the disclosure exemptions for businesses that meet the criteria to be classified as held for sale on acquisition (paragraphs 41B) are provided in consideration of the disclosure exemptions in the existing IFRS 5 for subsidiaries that meet the criteria to be classified as held for sale on acquisition.

13. We consider that quantitative information for businesses that meet the criteria to be classified as held for sale on acquisition would not be useful for users to assess the entity's ability to generate net cash flows, because the entity has a plan to sale these businesses in the near future. Information related to these businesses could be adequately provided to users by qualitative information required by paragraph 41 of the ED as well as under the existing IFRS 5. Therefore, with regard to Question 3(b), we agree with the proposed disclosure exemptions for businesses that meet the criteria to be classified as held for sale on acquisition.
14. We suggest that another reason for the disclosure exemption we point out above, namely, a mention that usefulness of quantitative information for those businesses would be limited, should be added in Basis for Conclusions.

Other issue - Reconciliation of amounts presented in the notes to the amounts presented in financial statements

15. The ED proposes that reconciliation information between the amounts presented in the notes to the amounts presented on the face of financial statements should be disclosed (paragraphs 33B and 39A). However, considering that analyses of major items should be separately disclosed in accordance with paragraphs 33(b) and 38, there would be no reconciliation items except for items related to businesses that meet the criteria to be classified as held for sale on acquisition or items not separately disclosed because they are determined to be minor. If that is the case, there could be an alternative that only the total amounts would be disclosed for those items in the analysis, instead of requiring reconciliation.

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We hope that our comments will contribute to the IASB's future deliberation in this project.

Sincerely yours,



Takehiro Arai

Chairman, The Technical Committee for Financial Statement Presentation
Board Member (full-time), Accounting Standards Board of Japan