

FASB Issues Exposure Drafts(ED) amendments to IFRS 5- Discontinued operations¹

This ED appears to be a step towards simplifying IFRS 5 and makes it more user-friendly, both for preparers as well as users.

The major proposals are highlighted below.

Operating segment - the criterion for 'discontinued operation'

The most fundamental change of IFRS 5 ED is its proposal to use an operating segment (as defined in IFRS 8, 'Segment reporting') as the criterion to determine whether a component of an entity that has been disposed of or classified as held for sale should be presented as a discontinued operation.

According to the Board, the best way to achieve the presentation of a disposal activity as a discontinued operation only when there is a strategic shift in an entity's operations is by aligning the identification of discontinued operations to IFRS 8, given the strategic importance inherent in identifying operating segments by the chief operating decision-maker (CODM). Subjectivity would thus be eliminated as terms such as 'major line of business' and 'geographical area' from the previous definition would be done away with. The amended definition will thus simplify the overall determination of discontinued operations, as entities are already required to identify operating segments under IFRS 8.

Mr. Khozema Anajwalla, Partner, Assurance and Advisory, comments, "The determination of operating segments under IFRS 8 will therefore be of paramount importance".

Measurement and recognition of relevant IFRSs.

This ED also proposes that amounts presented as discontinued operations should be based on relevant IFRSs even though the classification of a component as a discontinued operation is

¹ For more information on this article contact our offices in Atlanta and Mumbai.

based on the operating segments. What this means is that these amounts may not necessarily be the same as those amounts presented in an entity's segment analysis - as these are generally based as per the CODM. For example, management might not pay close attention to the measurement of items like deferred taxes or fair value measurements for assets and liabilities, for the purposes of segment analysis. However, when considering disclosure requirements from an IFRS 5 perspective, the measurement and recognition requirements of respective IFRSs would still apply. This would entail gathering of additional information to comply with the disclosure requirements for discontinued operations.

Major items to be disclosed and reconciled

The Board has also proposed an amendment that requires entities to disclose major items of income and expense and major classes of assets and liabilities for discontinued operations and to reconcile these amounts as presented in the notes to account to amounts presented on the face of the financial statements. Only minor items will be allowed to be aggregated in reconciling these amounts. There would be an element of subjectivity and judgment would need to be exercised. Items that would normally be presented separately will include impairments, interest, depreciation and amortizations.

Acquisition of a business

A further proposed amendment concerns the acquisition of a 'business' (as defined in IFRS 3 (Revised)) that meets the IFRS 5 criteria to be classified as held for sale on acquisition. The earlier definition referred to a 'subsidiary', as opposed to a 'business'. Current IFRS 5 does not require note disclosures for subsidiaries that meet the held-for-sale criteria on acquisition.

Mr. Khozema Anajwalla, Partner, Assurance and Advisory, comments "This would turn out to be a herculean task".

The Board believes that the exemption from disclosures should apply to a business regardless of the legal form of the transaction.

Source: IASB

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