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Berlin, 16 January 2009

Dear Stig,

EFRAG Draft Comment Letter on IASB Exposure Draft ‘Discontinued Operations – Proposed amendments to IFRS 5’

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on EFRAG’s draft comment letter on the IASB Exposure Draft ‘Discontinued Operations – Proposed amendments to IFRS 5’. We appreciate the opportunity to comment on EFRAG’s draft comment letter.

Overall, we agree with EFRAG’s significant concerns regarding the proposals included in the ED. However, we have a different view regarding the definition of discontinued operations and the transitional provisions. We disagree with the proposed definition of discontinued operations based on the existence of an operating segment and the proposed retrospective application of the revised definition.

Regarding your questions on pages 4 and 6 of your draft comment letter we have the following comments:

- Your question on page 4 (related to the IASB Question 1(b)): From our point of view your question seems to be inappropriate in the context it is asked because the issue that the question refers to could arise for most if not all possible definitions of discontinued operations. Even in case of the current definition that is based on the term ‘major line of business’ you could ask why an entity should disclose separate information about discontinued lines of business when it is not required to disclose separate information about its continuing lines of business. We believe that it should be considered useful for an entity to provide information

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about discontinued operations (whether segments, business lines or components of an entity), although it is not considered useful for an entity to provide information about its respective continuing operations. This is because the objectives of IFRS 5 (regarding the reporting of discontinued operations) and other IFRSs (regarding the reporting of continuing operations, e.g. IFRS 8) are different. However, as stated in our comment letter to the IASB, in principle we disagree with defining a discontinued operation on the basis of an operating segment.

- Your question on page 6 (related to the IASB Question 3(a)): As stated in our comment letter to the IASB, we believe that either a component of an entity meets the definition of a discontinued operation and should therefore be presented separately in the statement of comprehensive income and/or notes, or a component of an entity does not meet the definition of a discontinued operation. Such a component would then not have to be presented separately, neither in comprehensive income nor in the notes.

For the detailed comments we refer to our comment letter to the International Accounting Standards Board's Exposure Draft, which we attach to this letter.

If you would like to discuss any aspects of this comment letter in more detail, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President



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Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Berlin, 16. Januar 2009

Dear David,

Exposure Draft ‘Discontinued Operations – Proposed amendments to IFRS 5’

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on the IASB Exposure Draft ‘Discontinued Operations – Proposed amendments to IFRS 5’ (herein referred to as ‘the ED’). We appreciate the opportunity to comment on the Exposure Draft.

We generally support the objective of convergence of IFRS and US GAAP. Although we are aware of the IASB’s and FASB’s decision to converge their respective standards on discontinued operations, we nevertheless question the need for convergence regarding the definition of discontinued operations and the disclosure requirements at this point in time. However, if the Boards proceeded with this project, we would at least expect the resulting standard to remain without further changes for the foreseeable future in both, US GAAP and IFRS.

We disagree with the proposals regarding

- the definition of a discontinued operation;
- the disclosure requirements for components of an entity that do not meet the definition of a discontinued operation; and
- the retrospective application of the revised definition.

In addition, we have concerns regarding the different accounting treatments for discontinued operations that are classified as ‘held for sale’ and those that are ‘to be abandoned’.

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Please find our detailed comments on the questions raised in the ED in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President



APPENDIX

Definition of discontinued operations

Question 1(a)

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

We disagree with the proposed definition of a discontinued operation. Although we agree with the IASB's view that the current IFRS 5 definition referring to a 'major line of business' or a 'geographical area' could be subjective, we do not believe that the proposed definition is an improvement, either. A definition based on the existence of an operating segment may look more objective because of the guidance in IFRS 8. However, an approach using an operating segment has the significant disadvantage that the disposal of operating activities, that represent a major part of the entity's activities but do not represent an operating segment, would not be presented separately, though the related information would be relevant for users.

According to the ED the proposal aims at limiting the separate reporting for discontinued operations to scenarios in which the discontinuance results from a strategic shift. We disagree with this limitation. We believe that users want to be informed about major discontinuances albeit not representing strategic shifts of an entity, too. In addition, we do not agree with the IASB's view that the disposal of an operating segment is the best indicator for a strategic shift in an entity's operations. A disposal of a major line of business may indicate a strategic shift in an entity's operations even if this line of business was not an operating segment.

Para. 12 of IFRS 8 provides guidance on aggregating two or more operating segments into one operating segment. Unfortunately, it is not clear whether the ED's use of the term 'Operating Segment' refers to operating segments before or after such aggregation. One may argue that the ED implicitly refers to operating segments before aggregation as ED IFRS 5.32A states that an entity shall use the guidance in paragraphs 5–10 of IFRS 8 (i.e. prior to aggregation) to determine what its operating segments are for the purpose of presenting discontinued operations. However, para. 32A only applies to entities that are not required to present segment information because they are not subject to the requirements of IFRS 8. Therefore, we believe that specific guidance should be provided to clarify the role of segment aggregation for identifying discontinued operations.

In our view, neither the current IFRS definition (based on a major line of business or a geographical area) nor the proposed definition (based on an operating segment) are appropriate for determining a discontinued operation from the perspective of giving useful information to users. Rather, we believe that a component of an entity (as defined in IFRS 5 and SFAS 144) would be a superior basis for defining a discontinued



operation. A component of an entity identified as a discontinued operation should be disclosed separately when it is major. In deciding whether a component of an entity is major, quantitative and qualitative aspects should be considered. Among the qualitative factors to be considered is the 'dissimilarity' of the disposed component in comparison to the remaining components. Regarding the quantitative aspects a cumulative limit could ensure that a concurrent disposal of several small (not major) components is presented separately when the total of the minor components represents a major part of the reporting entity.

Apart from the definition of a discontinued operation itself, we have concerns regarding the current IFRS 5 requirement for treating discontinued operations differently, depending on whether they are classified as held for sale or are to be abandoned (according to IFRS 5.13), a differentiation sustained in the ED. In IFRS 5.BC36 the IASB argues that 'a distinction can be drawn between an asset that is to be sold and an asset that is to be abandoned, because the former will be recovered principally through sale and the latter through its continuing use'. We consider the IASB's argument weak, because in both cases (selling or abandoning) the asset or discontinued operation is or at least can be used until their disposal or abandonment.

From our point of view, this difference in treatment could lead to a presentation of economically identical circumstances in a different way and, therefore, to a presentation that is doubtful from the perspective of giving useful information to users. For example: Assume an entity that decides to sell a disposal group that qualifies for being reported as a discontinued operation. After negotiations with potential buyers the entity decides to discontinue the selling efforts and to abandon the disposal group instead. In such a scenario the entity would retrospectively report discontinued operations upon the decision to sell, reclassify the operations into continuing operations upon change of decision to again reclassify into discontinued operations once the wind-down of the operations is completed. Although in both cases (selling or abandoning) the entity clearly decides not to continue the operation the presentation changes with the decision whether it will be sold or abandoned.

Another example that supports an identical treatment of disposed or abandoned discontinued operations: An entity decides to divest a whole operating segment. While a part of that operating segment (e.g. 80%) is intended to be sold, the remaining other part (e.g. 20%) is intended to be abandoned in order to enhance the sale. Although the entity will no longer operate in the segment, the selling and/or abandoning will not be presented separately as discontinued operation. This is because of the proposed (as well as the current) wording of the definition of a discontinued operation. It implies that a sale of only a part of a segment (current: major line of business) would not be treated as a discontinued operation until the abandoned part ceases to be used.

As supported by the above examples we strongly believe that the different treatment of selling or abandoning leads to an inappropriate presentation of discontinuances, and



decision-useful information is not given under the current and proposed treatment for abandoned operations. We therefore ask the IASB to carefully reconsider that issue.

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?

We believe that it is feasible for entities to determine whether the component of an entity meets the definition of an operating segment even when these entities are not required to apply IFRS 8 for segment reporting purposes. However, as already said above, we disagree with defining a discontinued operation on the basis of an operating segment.

Amounts presented for discontinued operations

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?

We agree that the amounts presented for discontinued operations should be based on the amounts presented in the statement of comprehensive income. We support the IASB's view in ED IFRS 5.BC11. The objective of the separate presentation of amounts relating to discontinued operations is to provide users with information about different cash flows expected to arise from continuing and discontinued operations. This would be achieved in an objective and consistent manner, when the amounts must be determined in accordance with those IFRSs used to determine the amounts presented in the statement of comprehensive income.

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

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 agree with the proposed disclosure requirements for components of an entity as long as they meet the definition of a discontinued operation. These requirements



include the extended analysis of the post-tax profit or loss according to ED IFRS 5.33(b)(i) and the reconciliation according to ED IFRS 5.33B in cases where the analysis is presented in the notes.

We disagree with the proposed disclosure requirements for components of an entity that do not meet the definition of a discontinued operation. Either a component of an entity meets the definition of a discontinued operation and should, therefore, be presented separately in the statement of comprehensive income and/or notes, or a component of an entity does not meet the definition of a discontinued operation. Such a component would then not have to be presented separately, neither in the statement of comprehensive income nor in the notes. The IASB itself states in ED IFRS 5.BC11 that the objective of the separate presentation of discontinued operations is to provide users with information about the different cash flows expected to arise from continuing and discontinued operations. We strongly doubt the usefulness of the proposed extensive information related to components of an entity that do not meet the definition of discontinued operations.

In addition, we note that the IASB provides an explanation for all proposed amendments in the basis for conclusions except for the extension of disclosures relating to all components of an entity. In fact, ED IFRS 5.BC 8 indicates that the FASB agreed with the proposed definition of discontinued operations only as long as disclosures related to all components of an entity that have been disposed of or are classified as held for sale - regardless of whether they meet the definition of a discontinued operation or not - would be required. We do not believe that it is a feasible approach to remedy lacking agreements between IASB and FASB regarding the superior of several disclosure alternatives by simply requiring both alternatives. Additionally, we would welcome an analysis whether the cost and benefits of the proposed disclosures warrant the new requirements.

Overall the FASB's obvious concerns about the proposed definition of discontinued operations might be reduced by means of our proposed solution as outlined in our response to question 1 (a), i.e. to change the proposed definition to a "major component of an entity". We would expect that under normal circumstances more discontinuances would fall under this definition when compared to the currently proposed "operating segment".

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 agree with the disclosure exemptions for businesses that meet the criteria to be classified as held for sale on acquisition. Furthermore, we support the proposed



consequential amendment to IFRS 3 to provide similar disclosure exemptions, because this amendment improves the consistency of the standards.

Effective date and transition

Question 4

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

We agree that the proposed prospective application of the revised disclosures is appropriate.

However, we do not agree with the proposed retrospective application of the revised definition. Retrospective application would mean that when items presented as discontinued operations in prior periods do not meet the revised definition of discontinued operations, an entity shall reclassify the amounts presented in the statement of comprehensive income and present them in continuing operations. We believe that in many cases a retrospective application would be impracticable; furthermore, we doubt the usefulness of such reclassification. We therefore propose a prospective application, i.e. all discontinued operations should continue to be classified based on the definition that existed at the time of initial classification as discontinued operations.

In addition, we have concerns that the ED has not signalled the likely effective date. Therefore, it is difficult to assess the appropriateness of the transitional provisions regarding practicability. Generally, we would welcome if the IASB signalled likely effective dates when publishing exposure drafts, and if it was only by indicating the proposed time between standard issuance and initial mandatory application. Regarding the present ED IFRS 5, we would deem appropriate a mandatory application not earlier than one year after issuing the finalised standard.