

**Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)**

Italy, 00187 Roma, Via Poli 29
Tel. + 39 06 6976681 fax +39 06 69766830
e-mail: presidenza@fondazioneoic.it

Ms. Anne McGeachin
30 Cannon Street
London EC4M 6XH
United Kingdom
amcgeachin@iasb.org

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Re: *ED of Proposed Amendments to IFRS 5 Discontinued Operations*

Dear Sir/Madam

We are pleased to have an opportunity to comment on *ED of Proposed Amendments to IFRS 5 Discontinued Operations*

We greatly support the joint efforts of the IASB and the FASB to achieve a wider convergence between IFRSs and US GAAPs — since we believe that from such project the global accounting will benefit — as long as that convergence project takes into appropriate consideration the cost/benefit factor.

The ED proposes to introduce a new, converged definition of “discontinued operations”. Furthermore, it proposes to require additional disclosures related to the components of an entity that have been or are to be disposed of.

We welcome the IASB’s proposal to clarify the definition of discontinued operations. However we have some concerns as to the proposed amendment to the disclosure requirements.

Question 1 – Definition of discontinued operations

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

Answer 1

- (a) We agree with the proposed definition of discontinued operations because the use of the notion of an operating segment, as that term is defined in IFRS 8 *Operating Segments*, could reduce subjectivity of preparers in the determination of discontinued operations. Furthermore, it could allow users to identify more easily a discontinued operation.
- (b) ED proposes that if an entity is not required to present segment information because it is not subject to the requirements of IFRS 8, the entity is nonetheless required to present discontinued operations based on the operating segment criterion. That entity shall use the guidance in paragraphs 5–10 of IFRS 8 to determine what its operating segments are for the purpose of presenting discontinued operations.
In general, we think that most entities are able to determine whether their components meet the definition of an operating segment. However for an entity that is not required to apply IFRS 8, this determination could be more difficult and in some cases it might be subjective. In fact, the guidance in paragraphs 5–10 of IFRS 8 refers to information on governance and segment available to the chief operating officer; although an entity that is not subject to IFRS 8 could have these information, not always this could happen, especially for small entities; in that case, to determine operating segment, OIC proposes to use quantitative thresholds in paragraph 13-19 of IFRS 8.

Question 2 – Amounts presented for discontinued operations

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?

Answer 2

We agree with the proposal 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 are based on different amounts i.e. as submitted to the chief operating officer which may be non-IFRS measures. If this is the case, we suggest to require a reconciliation between amounts reported under IFRS 8 with amounts presented in the statement of comprehensive income. We also recommend an appropriate disclosure about the differences.

Question 3 – Disclosures for all components of an entity that have

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

Answer 3

- (a) We do not agree with the approach proposed in paragraph 41A. In accordance with the new definition of discontinued operations in paragraph 32, we think that the disclosure should be focused only on components of an entity that meet the definition of an operating segment and either has been disposed of or is classified as held for sale.
- (b) We agree with the disclosure exemptions for businesses that meet the criteria to be classified as held for sale on acquisition. It is the same exemption already provided by IFRS 5 for a subsidiary that meets the criteria to be classified as held for sale on acquisition. The IASB proposes that the definition of discontinued operations should also refer to a business, as that term is defined in IFRS 3 Business Combinations (as revised in 2008), rather than a subsidiary, because all acquisitions of businesses would face the same presentation issues and the presentation should not differ on the basis of its legal form. The fact that the new definition of discontinued operation is wider (business rather than subsidiary) does not change the rationale of the exemption, that is to avoid disclosing information, especially performance information, not relevant to assess entity's future cash flows. The knowledge of performance information about something that is acquired to be sold on the acquisition is worthless; in this case the future estimated cash flow from the sale is the only significant information for users.

Question 4 – Effective date and transition

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

Answer 4

The IASB proposes that entities would be required to apply the proposed changes prospectively, effective from a date to be determined by the IASB, 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. The IASB also proposes that disclosures for prior periods should not be provided in accordance with the revised disclosure requirements (see new paragraph 41A).

In general we think that all new or amended accounting requirements should be applied retrospectively to enhance their comparability. For this reason, we welcome the proposal that the changes to the definition of a discontinued operations should be applied retrospectively. Regarding the application of proposed disclosure for prior periods, we agree not to apply paragraph 41A retrospectively but we think that if such disclosure is required only for discontinued operations, as proposed above in question 3.a., it might be possible to apply the amended disclosure requirements retrospectively.

Yours sincerely,

Angelo Casò
(OIC Chairman)