

PROPOSED FINANCIAL REPORTING STANDARD

ED/FRS 105

Exposure Draft

Discontinued Operations

Proposed amendments to FRS 105

Comments to be received by 23 November 2008

This exposure draft *Discontinued Operations* (proposed amendments to FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*) is issued by the Accounting Standards Council (ASC) for comment only and does not necessarily represent the views of ASC. The proposals may be modified in the light of the comments received before being issued in final form as amendments to FRS 105.

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by 23 November 2008 preferably by email to MOF_Feedback_ASC@mof.gov.sg or addressed to:

Accounting Standards Council
c/o Ministry of Finance
100 High Street #10-01
The Treasury
Singapore 179434

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Introduction

- 1 This exposure draft contains proposals by the International Accounting Standards Board (IASB) to amend IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* to revise the definition of discontinued operations and require additional disclosure related to components of an entity that have been (or will be) disposed of.

ASC is issuing the equivalent exposure draft in Singapore.

- 2 ASC proposes that a disposal activity should be presented as a discontinued operation only when an entity has made a strategic shift in its operations. Moreover, it was decided that a definition of discontinued operations based on operating segments, as defined in FRS 108 *Operating Segments*, best captures a strategic shift in the entity's operations because the determination of operating segments is based on how the chief operating decision maker makes decisions about allocating resources and assessing performance.
- 3 ASC has not reconsidered other aspects of FRS 105.

Invitation to comment

ASC invites comments on the amendments to FRS 105 proposed in this exposure draft, particularly on the questions set out below. Comments are helpful if they:

- (a) comment on the questions as stated,
- (b) indicate the specific paragraph or group of paragraphs to which they relate,
- (c) contain a clear rationale, and
- (d) include any alternative ASC should consider, if applicable.

Respondents need not comment on all of the questions and are encouraged to comment on any additional issues that, in their view, warrant consideration.

ASC is not requesting comments on matters in FRS 105 not addressed in this exposure draft.

Comments should be submitted in writing so as to be received no later than **23 November 2008**.

Question 1 – Definition of discontinued operations

FRS 105 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 FRS 108) and either has been disposed of or is classified as held for sale or
- (b) is a *business* (as that term is defined in FRS 103 *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 FRS 108.

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 FRS 108, 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 FRS 108, and why?

Question 2 – Amounts presented for discontinued operations

Under FRS 108, 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 FRS 108 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?

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?

Question 4 – Effective date and transition

Entities would be required to apply the proposed changes prospectively, from a date to be determined by ASC 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.

Question 4

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

PROPOSED FINANCIAL REPORTING STANDARD

ED/FRS 105

Proposed amendments to FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraph 13 is amended: new text is underlined and deleted text is struck through.

Classification of non-current assets (or disposal groups) as held for sale

Non-current assets that are to be abandoned

- 13 An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use. However, if the disposal group to be abandoned meets the criteria in paragraph 32(a) or (b)~~-(e)~~, the entity shall present the results and cash flows of the disposal group as a discontinued operations in accordance with paragraphs 33 and 34 at the date on which it ceases to be used. Non-current assets (or disposal groups) to be abandoned include non-current assets (or disposal groups) that are to be used to the end of their economic life and non-current assets (or disposal groups) that are to be closed rather than sold.

Paragraphs 32, 33, 34 and 36 are amended: new text is underlined and deleted text is struck through. Paragraphs 32A and 33B are added. Paragraphs 31, 33A and 35 are not proposed for amendment but are included here for ease of reference.

Presentation and disclosure

Presenting discontinued operations

- 31 A *component of an entity* comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will have been a cash-generating unit or a group of cash-generating units while being held for use.
- 32 A discontinued operation is a component of an entity that ~~either has been disposed of, or is classified as held for sale, and:~~
- (a) is an *operating segment* and either has been disposed of or is classified as held for sale, or 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 *business* that meets the criteria to be classified as held for sale on acquisition subsidiary acquired exclusively with a view to resale.
- 32A If an entity is not required to present segment information because it is not subject to the requirements of FRS 108 *Operating Segments*, the entity is nonetheless required to present

discontinued operations based on the operating segment criterion in paragraph 32(a). That entity shall use the guidance in paragraphs 5–10 of FRS 108 to determine what its operating segments are for the purpose of presenting discontinued operations.

- 33 An entity shall disclose:
- (a) a single amount in the statement of comprehensive income comprising the total of:
 - (i) the post-tax profit or loss of discontinued operations and
 - (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.
 - (b) an analysis of the single amount in (a) into:
 - (i) ~~the revenue, expenses, and~~ pre-tax profit or loss of discontinued operations, together with major income and expense items constituting that pre-tax profit or loss, including impairments, interest, depreciation and amortisation;
 - (ii) the ~~related~~ income tax expense related to (i) as required by paragraph 81(h) of FRS 12;
 - (iii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and
 - (iv) the ~~related~~ income tax expense related to (iii) as required by paragraph 81(h) of FRS 12.

The analysis may be presented in the notes or in the statement of comprehensive income. If it is presented in the statement of comprehensive income, it shall be presented in a section identified as relating to discontinued operations, ie separately from continuing operations. The analysis is not required for disposal groups that are businesses newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).

- ~~(c) [subsumed in paragraph 41A(c)] the net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or in the financial statements. These disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).~~
- ~~(d) [subsumed in paragraph 41A(b)] the amount of income from continuing operations and from discontinued operations attributable to owners of the parent. These disclosures may be presented either in the notes or in the statement of comprehensive income.~~

The amounts disclosed to comply with this paragraph shall be determined using the FRSs used to determine the amounts presented in the statement of comprehensive income, even if segment information disclosed to comply with FRS 108 includes different amounts that are reported to the chief operating decision maker.

- 33A If an entity presents the components of profit or loss in a separate income statement as described in paragraph 81 of FRS 1 (as revised in 2008), a section identified as relating to discontinued operations is presented in that separate statement.
- 33B If an entity discloses the major income and expense items from discontinued operations in the notes (see paragraph 33(b)), it shall reconcile the amounts of those items to the post-tax profit or loss from discontinued operations presented in the statement of comprehensive income (or in the separate income statement). In doing so, an entity may:

- (a) aggregate the profit or loss of businesses that meet the criteria to be classified as held for sale on acquisition (see paragraph 41B); and
 - (b) aggregate the income and expense items (other than those in (a)) that are not disclosed separately because it did not consider them major.
- 34 An entity shall re-present the disclosures in paragraph 33 for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the latest reporting period ~~for the latest period presented~~.
- 35 Adjustments in the current period to amounts previously presented in discontinued operations that are directly related to the disposal of a discontinued operation in a prior period shall be classified separately in discontinued operations. The nature and amount of such adjustments shall be disclosed. Examples of circumstances in which these adjustments may arise include the following:
- (a) the resolution of uncertainties that arise from the terms of the disposal transaction, such as the resolution of purchase price adjustments and indemnification issues with the purchaser.
 - (b) the resolution of uncertainties that arise from and are directly related to the operations of the component before its disposal, such as environmental and product warranty obligations retained by the seller.
 - (c) the settlement of employee benefit plan obligations, provided that the settlement is directly related to the disposal transaction.
- 36 If an entity ceases to classify a component of an entity as held for sale, the results of operations of the components previously presented in discontinued operations in accordance with paragraphs 33, 33A, 34 and 35 ~~33–35~~ shall be reclassified and included in profit or loss ~~income~~ from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

Paragraphs 39 and 40 are amended: new text is underlined and deleted text is struck through. Paragraph 39A is added. Paragraph 38 is not proposed for amendment but is included here for ease of reference.

Presentation of a non-current asset or disposal group classified as held for sale

- 38 An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately disclosed either in the statement of financial position or in the notes, except as permitted by paragraph 39. An entity shall present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale.
- 39 If the disposal group is a business ~~newly acquired subsidiary~~ that meets the criteria to be classified as held for sale on acquisition (see paragraph 11), disclosure of the major classes of assets and liabilities is not required.
- 39A If an entity discloses in the notes the major classes of assets and liabilities classified as held for sale, it shall reconcile the amounts of those assets and liabilities to total assets and total liabilities classified as held for sale that are presented separately in the statement of financial

position. In doing so, an entity may:

- (a) aggregate the assets and liabilities of businesses that meet the criteria to be classified as held for sale on acquisition (see paragraph 39); and
- (b) aggregate the assets and liabilities classified as held for sale (other than those in (a)) that are not disclosed separately because it did not consider them major.

40 An entity shall not reclassify or re-present amounts presented in the statements of financial position for non-current assets or for the assets and liabilities of disposal groups classified as held for sale ~~in the statements of financial position for prior periods to reflect the classification in the statement of financial position for the latest period presented.~~

Paragraph 41 is amended: new text is underlined and deleted text is struck through. After paragraph 41, paragraphs 41A and 41B are added.

Additional disclosures

41 An entity shall disclose the following information in the notes for ~~in~~ the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:

- (a) a description of the non-current asset (or disposal group);
- (b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;
- (c) the gain or loss recognised in accordance with paragraphs 20–22 and, if not separately presented in the statement of comprehensive income (or in the separate income statement), the caption in the statement of comprehensive income (or in the separate income statement) that includes that gain or loss;
- (d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with FRS 108 ~~Operating Segments~~.

41A An entity shall disclose the following information in the notes or in the statement of comprehensive income (or in the separate income statement) or statement of cash flows for the period in which a component of an entity 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:

- (a) the profit or loss, together with major income and expense items constituting that profit or loss, including impairments, interest, depreciation and amortisation;
- (b) whether the profit or loss in (a) is presented in continuing operations or in discontinued operations;
- (c) if the component of an entity includes a non-controlling interest, the profit or loss attributable to the owners of the parent; and
- (d) the major classes of cash flows (operating, investing and financing).

41B The amounts disclosed to comply with paragraph 41A shall be determined using the FRSs used to determine the amounts presented in the statement of comprehensive income, even if segment information presented to comply with FRS 108 includes different amounts that are reported to the chief operating decision maker. These disclosures are not required for businesses that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).

After paragraph 43, paragraph 43A is added.

Transitional provisions

- 43A In [date to be inserted after exposure], paragraphs 13, 32, 33, 34, 36, 39, 40 and 41 were amended and paragraphs 32A, 33B, 39A, 41A and 41B were added. An entity shall apply those [draft] amendments as follows:
- (a) An entity shall apply the [draft] amendments from the beginning of an annual period.
 - (b) An entity shall present discontinued operations in the statement of comprehensive income (or in the separate income statement) in accordance with the revised definition of discontinued operations in paragraph 32 for all periods presented. Accordingly, if items presented in 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 (or in the separate income statement) and present them in continuing operations. If an entity reclassifies prior period amounts, it shall disclose that fact and the amounts reclassified.
 - (c) For periods before the application of the [draft] amendments that are presented in the financial statements in which the [draft] amendments apply, an entity shall provide disclosures based on the requirements applicable in those periods before the application of the [draft] amendments, regardless of whether it reclassifies the amounts in the statement of comprehensive income (or in the separate income statement) in accordance with (b). Accordingly, an entity is not required to provide the revised disclosures for components of an entity that have been disposed of or were classified as held for sale in periods before the [draft] amendments are applied.
 - (d) For periods after the application of the [draft] amendments, an entity shall provide disclosures in accordance with the revised requirements.

After paragraph 44, paragraph 44A is added.

Effective date

- 44A An entity shall apply the [draft] amendments made in [year to be inserted after exposure] to paragraphs 13, 32, 33, 33B, 34, 36 and 39–41B for annual periods beginning on or after [date to be inserted after exposure] in accordance with paragraph 43A. Earlier application is permitted. If an entity applies the [draft] amendments before [date to be inserted after exposure], it shall disclose that fact.

Appendix A

Defined terms

The following term is amended: new text is underlined and deleted text is struck through.

discontinued operation	<p>A component of an entity that either has been disposed of or is classified as held for sale and:</p> <p>(a) <u>is an operating segment and either has been disposed of or is classified as held for sale, or represents a separate major line of business or geographical area of operations,</u></p> <p>(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or</p> <p>(c) <u>is a business that meets the criteria to be classified as held for sale on acquisition</u> subsidiary acquired exclusively with a view to resale.</p>
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The following terms are added.

business	<p>An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.</p>
operating segment	<p>An operating segment is a component of an entity:</p> <p>(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),</p> <p>(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to decisions about resources to be allocated to the segment and assess its performance, and</p> <p>(c) for which discrete financial information is available.</p>

Appendix Amendments to other FRSs

The amendments in this appendix shall be applied for annual periods beginning on or after [date to be inserted after exposure]. If an entity applies the [draft] amendments to FRS 105 for an earlier period, it shall apply the amendments for that earlier period. In the amended paragraphs, new text is underlined and deleted text is struck through.

1 In FRS 12 *Income Taxes* paragraph 81 is amended as follows:

81 The following shall also be disclosed separately:

...

(h) in respect of discontinued operations, the tax expense relating to:

- (i) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups constituting the discontinued operation ~~on discontinuance~~; and**
- (ii) the profit or loss from the ordinary activities of the discontinued operations for the period, together with the corresponding amounts for each prior period presented;**

...

2 In FRS 103 *Business Combinations* (as revised in 2008) paragraph B64A is added after paragraph B64:

B64A Disclosures specified in paragraph B64(h), (i) and (q) are not required if an entity acquires a disposal group that is a business that meets the criteria to be classified as held for sale on acquisition (see paragraph 11 of FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* (as revised in [year to be inserted after exposure])).

Proposed amendments to guidance on implementing FRS 105

Example 9 is amended: new text is underlined and deleted text is struck through.

Presenting a discontinued operation that has been abandoned

Paragraph 13 of the FRS prohibits assets that will be abandoned from being classified as held for sale. However, if the assets to be abandoned meet the definition of an operating segment ~~are a major line of business or geographical area of operations~~, they are presented ~~reported~~ in discontinued operations at the date at which they are abandoned. Example 9 illustrates this.

Example 9

In October 20X5 an entity decides to abandon all of its cotton mills, which together meet the definition of an operating segment ~~constitute a major line of business~~. All work stops at the cotton mills during the year ended 31 December 20X6. In the financial statements for the year ended 31 December 20X5, results and cash flows of the cotton mills are treated as continuing operations. In the financial statements for the year ended 31 December 20X6, the results and cash flows of the cotton mills are treated as discontinued operations and the entity makes the disclosures required by paragraphs 33 and 34 of the FRS.

Example 13 is amended: deleted text is struck through.

Measuring and presenting businesses that meet the criteria to be subsidiaries acquired with a view to resale and classified as held for sale on acquisition

A subsidiary that meets the criteria to be classified as held for sale on acquisition ~~acquired with a view to sale~~ is not exempt from consolidation in accordance with FRS 27 *Consolidated and Separate Financial Statements*. However, ~~if it meets the criteria in paragraph 11~~, it is presented as a disposal group classified as held for sale. Example 13 illustrates these requirements.

Example 13

Entity A acquires entity H, which is a holding company with two subsidiaries, S1 and S2. ~~S2 is acquired exclusively with a view to sale and~~ meets the definition of a business and the criteria to be classified as held for sale on acquisition. In accordance with paragraph 32(b)(e), S2 is ~~also~~ a discontinued operation.

~~The estimated fair value less costs to sell of S2 is CU135. A accounts for S2 as follows:~~

- initially, A measures the disposal group (ie the assets and liabilities of S2 as a whole) at CU135. The identifiable liabilities of S2, which form part of the disposal group, are measured at fair value, ie say at CU40.
- ~~initially,~~ A measures the acquired assets as the fair value less costs to sell of the disposal group S2 (CU135) plus the fair value of the identifiable liabilities (CU40), ie at CU175
- at the end of the reporting period, A remeasures the disposal group at the lower of its cost and fair value less costs to sell, ~~ie say at CU130.~~ The liabilities are remeasured in accordance with applicable FRSs, ~~ie say at CU35.~~ The total assets are measured at CU130 + CU35, ie at CU165
- at the end of the reporting period, A presents the assets and liabilities separately from other assets and liabilities in its consolidated financial statements as illustrated in Example 12

Presenting non-current assets or disposal groups classified as held for sale, and

- in the statement of comprehensive income, A presents the total of the post-tax profit or loss of S2 and the post-tax gain or loss recognised on the subsequent remeasurement of S2, which equals the remeasurement of the disposal group from CU135 to CU130.

Further analysis of the assets and liabilities or of the change in value of the disposal group is not required.