

Discontinued Operations

Amendments to Section 3475 —

Background Information and Basis for Conclusions

Foreword

In May 2013, the Accounting Standards Board (AcSB) amended DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475 in Part II of the CICA Handbook – Accounting, to amend the definition of a discontinued operation. The AcSB has approved for publication the contents of this document setting out its rationale for the amendments.

Background Information and Basis for Conclusions documents are sources of generally accepted accounting principles, as described in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100 in Part II of the Handbook. These documents are intended to help readers understand how the AcSB reached its conclusions, but they do not include explanations of requirements or guidance on the application of the relevant Section or Accounting Guideline.

May 2013

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INTRODUCTION

- 1 This document summarizes considerations that were deemed significant by the members of the Accounting Standards Board (AcSB) in reaching their conclusions to amend DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475 in Part II of the CICA Handbook – Accounting. It sets out the reasons the AcSB undertook the project to develop the amendments, the process of research and deliberation, the key decisions made, and the principal reasons for adopting the positions taken and rejecting others. Individual AcSB members gave greater weight to some factors than to others.
- 2 Nothing in this document is to be taken as overriding the requirements of the CICA Handbook – Accounting. However, the discussion may help readers understand how the AcSB reached its conclusions in developing the amendments and the AcSB's intent with respect to its interpretation and application.

BACKGROUND AND EFFECTS ANALYSIS

- 3 The previous definition of a discontinued operation in Section 3475 generally, although not always, resulted in the presentation of more disposals as discontinued operations than the definition in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* in Part I of the Handbook. Separately identifying and reporting the results of discontinued operations requires some additional cost and work effort by financial statement preparers.
- 4 The previous definition of a component in Section 3475 included two conditions that were not part of the IFRS 5 definition. The AcSB noted that these criteria were often difficult to apply, resulting in divergence in practice.
- 5 The AcSB was concerned that private enterprises applying Part II were required to incur more cost and effort in reporting discontinued operations than enterprises using Part I. The AcSB also noted that it could not identify any conceptually "right" answer as to which disposals should be reported as discontinued operations. Consequently, the AcSB considered

- the effect on financial statement users of limiting the disposals classified as discontinued operations to those required by IFRS 5.
- 6 Financial statement users on the AcSB's Private Enterprise Advisory Committee informed the AcSB that the previous requirements to disclose long-lived assets disposed of or held for sale provided the key information that they need. Those disclosures ensured that users are aware of disposals, enabling them to ask for additional information, if necessary. The information provided by presenting discontinued operations separately in the financial statements, including data for comparative years, is useful for large disposals that represent a shift in strategy or tactics. However, the inclusion of many less significant disposals, often made for ongoing operational reasons, does not provide significant additional value to users. Therefore, users agreed with changing the criteria to focus on more significant disposals.
- 7 In May 2012, the AcSB agreed that the definition of a discontinued operation in Section 3475 should be amended to be consistent with that in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. This amendment would provide users with the information that they require while reducing the costs for preparers.
- 8 The AcSB released an Exposure Draft, "Discontinued Operations," in July 2012. Respondents were primarily from public accounting firms and generally expressed agreement with the proposals set out in the Exposure Draft.

EXPOSURE DRAFT COMMENTS

Definition

- 9 One respondent thought that it was unclear whether individual geographical locations would meet the definition of a component. The AcSB felt that the definition of a discontinued operation, which refers to "a separate major line of business or geographical area of operations" provided sufficient guidance. Professional judgment would have to be applied to the facts and circumstances of specific situations to determine if a single geographic location were to meet the definition of a discontinued operation.
- 10 Another respondent commented that it was unclear whether a component distributed to owners in a spin-off or abandoned, but otherwise meeting the definition of a discontinued operation, should be included in discontinued operations. The AcSB noted that the previous standard was clear that such components are discontinued operations and it did not intend to change the standard on that issue. Accordingly, the final amendments to the standard include no change to the former guidance.

Disposal of substantially the whole enterprise

- 11 One respondent questioned whether an enterprise would report the results of operations of a component of an enterprise classified as held for sale as a discontinued operation if the remaining operations were insignificant. Guidance on that issue was contained in Emerging Issues Committee Abstract EIC-161, Discontinued Operations, in pre-changeover standards in Part V of the Handbook, which was not deemed necessary to be carried forward into Part II. The AcSB noted that the definition of a discontinued operation refers to a "component of an enterprise ... that can be clearly distinguished ... from the rest of the enterprise," and did not think that more specific guidance on the issue was required.

Other comments

- 12 Respondents identified a number of other minor issues with the proposals set out in the Exposure Draft. One respondent questioned the need to present discontinued operations separately in the income statement as the information users need is available in the disclosures. The AcSB disagreed. Financial statement users on the Private Enterprise Advisory Committee had commented that they find presenting the effect on current and prior year earnings in the financial statements for disposals of significant groups of assets to be useful and do not want to lose that information.
- 13 A few respondents questioned the removal of the examples related to discontinued operations in the Illustrative Examples to the standard. The AcSB intends the private enterprise standards to be more principles-based than the pre-changeover standards, and to encourage the use of professional judgment. Consistent with that approach, it decided not to develop examples of the application of the revised definition of a discontinued operation.

Effective date and transitional provisions

- 14 Respondents thought that the proposed transition to the revised standard was not clear as to whether the amendments are to be applied prospectively or retrospectively to all comparative periods presented. The AcSB addressed this concern in finalizing the amendments to the standard.

