



Board Meeting Handout

LEASES

July 23, 2008

PURPOSE

The purpose of this meeting is for the Board to discuss the overall approach to the joint leases project in conjunction with the 2008 Memorandum of Understanding. The Boards will specifically discuss (1) the scope of the project and whether to include or exclude lessor accounting, (2) the treatment of options to extend or terminate a lease, (3) the treatment of contingent rentals, (4) the initial and subsequent measurement of a lessee's right-of-use asset and obligation to make rental payments, and (5) whether to retain the classification criteria for operating and finance leases.

ISSUE 1: OVERALL APPROACH AND SCOPE (FASB MEMO NO. 16)

Background

In their previous discussions on the leasing project, the Boards have accepted that there are significant problems with existing leasing standards and that urgent steps should be taken to address them. Although these problems relate to both lessee and lessor accounting, the main driver for the project was the very substantial obligations arising under operating leases and the corresponding assets hired under these leases, which were omitted from lessee balance sheets. This leads to 'rule of thumb' adjustments by analysts and other users of financial statements.

The Boards have discussed many specific lease accounting issues (such as the accounting for options to extend or terminate a lease, obligations arising under a lease, and contingent rentals) but have not reached conclusions on many of these issues. The staff thinks that further detailed analysis of these issues is unlikely to result in a practical working approach to lessee accounting by June 2011. Accordingly, at the April 2008 joint meeting, the staff proposed an alternative approach that has the potential to achieve significant improvements in lessee accounting within the proposed timetable.

Staff Recommendation

The staff recommends the Boards defer consideration of lessor accounting; accordingly, lessors would therefore continue to apply the guidance in IAS 17, *Leases*, and FASB Statement No. 13, *Accounting for Leases*, in their financial statements. Where possible, the staff also recommends applying the current IAS 17 accounting model for finance leases, adapted where necessary, to apply to leases that are currently classified as operating leases. This would require the lessee to recognize (1) an asset representing the right of use of the leased item for the lease term and (2) an obligation for the present value of the rentals for that term.

Questions for the Board

Q1. Do Board members agree that consideration of lessor accounting should be deferred and that the proposed new standard should deal only with lessee accounting?

Q2. Are Board members aware of any other issues that could arise in adapting the finance lease model to apply to all leases?

Q3. Do Board members agree with the proposed approach to adapt the finance lease model to apply to all leases?

ISSUE 2: OPTIONS TO EXTEND OR TERMINATE A LEASE (FASB MEMO NO. 17)

Issue 2(a): Recognition and Measurement of Options

Background

Lease contracts sometimes incorporate optional periods—that is, the lessee may have the right to use the leased item during the optional period but is not contractually required to do so. IAS 17 and Statement 13 do not require the separate recognition and measurement of options to extend or terminate a lease. Instead, lessees are required to consider the existence of options and the likelihood of their exercise when determining the lease term.

Staff Recommendation

The staff proposes a similar approach for the proposed new standard. The lessee would determine the “substantive” or “effective” lease term, taking into account the options and the likelihood of their exercise. The right-of-use asset and the liability for rentals would be recognized and measured based on this substantive lease term.

Questions for the Board

Q4. Do Board members agree that options to extend or terminate the lease should not be recognized separately from the right-of-use asset?

Q5. Do Board members agree that the assets and liabilities recognized by the lessee should be based upon an assessment of the lease term?

Issue 2(b): When Should an Optional Period Be Included in the Lease Term?

Background

The Boards need to decide on the probability threshold that will be applied in determining when an optional period should be included in the lease term. IAS 17 requires a lessee to determine the term of a lease contract (for both classification and measurement) by including periods covered by options to extend if the exercise of the option is reasonably certain. An option to terminate a lease is ignored, if upon termination, the lessee is required to make a payment that is large enough to make continuation of the lease reasonably certain. The requirements of Statement 13 are broadly similar to those of IAS 17.

The Boards could decide to use a different probability threshold to determine whether to include an optional period within the lease term. Possible thresholds include (1) virtually certain, (2) probable, (3) more likely than not, or (4) expected (probability weighted).

Staff Recommendation

The staff does not recommend that the Boards adopt any of these alternative approaches. Each of the different approaches described above can be argued to be a reasonable way to draw the line between including an optional period in a lease term and excluding it. However, the application of the reasonably certain probability threshold is familiar to lessees and is well

understood. Any move away from this approach is likely to result in calls for additional guidance and could result in significant application issues.

Questions for the Board

Q6. Do Board members agree that the lease term should be based upon whether it is reasonably certain that the right to use the leased item in an optional period will be exercised?

Q7. If Board members disagree with question 6, which of the alternative approaches described above would Board members prefer?

Issue 2(c): Factors to Be Considered in Determining the Lease Term

Background

Factors that could affect the term of a lease can broadly be characterized as (1) contractual factors, (2) non-contractual financial factors, (3) business factors, or (4) lessee specific factors.

IAS 17 provides very little guidance on factors that should be considered in determining the lease term, while Statement 13 provides more detailed guidance. In practice under both standards, all of the factors listed above are taken into account with the exception of lessee specific factors such as intent and past practice, which generally are not considered.

Staff Recommendation

The staff recommends that any guidance on the factors to consider when determining the lease term should be consistent with current practice. Accordingly, if the Boards conclude that guidance on the factors to be considered should be provided, the staff recommends that any guidance should specify that all relevant factors except for lessee intent and past practice should be taken into account in determining the lease term.

Questions for the Board

Q8. Should the leases standard provide guidance on the factors to be considered when determining the lease term?

Q9. If Board members agree with Question 8, do the Board members agree with the staff's recommendation that all factors are relevant except for lessee intent and past practice?

ISSUE 3: CONTINGENT RENTALS (FASB MEMO NO. 18)

Background

Under existing accounting, contingent lease payments have similar accounting under both U.S. GAAP and IFRS. Contingent lease payments are generally expensed in the period incurred and excluded from the minimum lease payments that are used in both the determination of whether a lease qualifies as a financing or operating lease and the measurement of the initial lease obligation. However, contingent rentals that are based on an existing index are included in minimum lease payments based upon the current level of the index. Any increases or decreases in lease payments that result from subsequent changes in the index are charged as expenses in the periods in which they are incurred.

Both Statement 13 and IAS 17 require specific disclosures for contingent lease payments, including a general description of the basis on which contingent lease payments are determined and the separate identification of contingent lease payments incurred in the reporting period.

Staff Recommendation

The staff recommends that the Board retain the existing guidance for the recognition and measurement of contingent lease payments. If the Boards decide to retain the current IAS 17 approach to contingent rentals, the staff also will suggest additional disclosures that will enable users to further understand any contingent rental arrangements and their effect on the lessee's financial statements.

Questions for the Board

Q10. Do Board members want to retain the IAS 17 approach for accounting for contingent rentals?

Q11. If the Boards support retaining the current IAS 17 approach for accounting for contingent rentals, do the Boards want the staff to further develop the enhanced disclosure requirements for contingent rentals?

Q12. If the Boards do not support retaining the current IAS 17 approach for accounting for contingent rentals, the staff would like Board members to indicate what additional analysis (beyond what was provided at the October 2007 Board meetings) the staff should perform on this issue so that the Boards can reach a decision on this topic.

ISSUE 4: LESSEE'S MEASUREMENT OF THE RIGHT-OF USE-ASSET AND OBLIGATION TO MAKE RENTAL PAYMENTS (FASB MEMO NO. 19)

Issue 4(a): Initial Measurement of Lessee's Right-of-Use Asset

Background

The IAS 17 approach for the initial recognition of a lessee's asset is to recognize an asset in the lessee's balance sheet at an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, which is determined at the inception of the lease. The requirements of Statement 13 are similar. The initial measurement of a lessee's right to use also could be recorded at the fair value of the right to use the leased item as opposed to fair value of the leased item itself.

Staff Recommendation

The staff proposes that the right-of-use asset should initially be measured in the same way as leases currently classified as finance leases. That is, the staff recommends that the initial measurement of the lessee's right-of-use asset should be the lower of the obligation to pay rentals or the fair value of the leased item.

Question for the Board

Q13. Do Board members agree that the right-of-use asset should be initially measured at the lower of the obligation to pay rentals or the fair value of the leased item?

Issue 4(b): Initial Measurement of Lessee's Obligation to Pay Rentals

Background

IAS 17 requires the liability to be initially measured at the lower of the fair value of the leased item or the present value of the minimum lease payments. Statement 13 provides similar guidance. This ensures that the asset and liability are always equal upon initial recognition. An alternative might be to measure the lessee's obligation at fair value.

Staff Recommendation

The staff proposes that the right-of-use liability should initially be measured in the same way as leases currently classified as finance leases. That is, the staff recommends that the initial measurement of the lessee's obligation to make rental payments should be recorded at the lower of the fair value of the leased item or the present value of the minimum lease payments, as determined at the inception of the lease.

Question for the Board

Q14. Do Board members agree that the initial measurement of a lessee's liability for rental payments should be at the present value of the minimum lease payments?

Issue 4(c): Discount Rate

Background

IAS 17 states that the discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Statement 13 requires a lessee to use its incremental borrowing rate unless it is practicable to determine the implicit rate computed by the lessor and that implicit rate is lower than the incremental borrowing rate. If so, then the implicit rate shall be used.

Staff Recommendation

Consistent with the overall approach to this project, the staff recommends retaining the current guidance for discounting the minimum lease payments. This recommendation would discount the minimum lease payments at either the implicit rate, assuming it is determinable, or at the incremental borrowing rate.

Question for the Board

Q15. Do Board members agree that the discount rate to be used in calculating the present value of the minimum lease payments should be the interest rate implicit in the lease if this is practicable to determine; if not, should the lessee's incremental borrowing rate be used?

Issue 4(d): Subsequent Measurement of Lessee's Right-of-Use Asset

Background

Subsequent accounting for assets under IAS 17 is to allocate the depreciable amount of the leased item each accounting period during the period of expected use on a systematic basis consistent with IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets*, which generally require straight-line depreciation/ amortization over the asset's useful life. For leased items, under both IAS 17 and Statement 13, when it is reasonably certain that the lessee will

obtain ownership at the end of the lease, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Alternative views for the subsequent accounting of the lessee's asset are (1) amortizing the asset using mortgage amortization based on initial accounting with the lessee's incremental borrowing or (2) fair value.

Staff Recommendation

The staff recommends that the lessee's right-of-use asset should subsequently be accounted for by allocating the depreciable amount of the right-of-use asset each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. The right-of-use asset would be depreciated over the shorter of the lease term or the economic life of the leased item.

The staff also recommends that the right-of-use asset be considered for impairment under either IAS 36, *Impairment of Assets*, or FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Question for the Board

Q16. Do Board members agree with the staff's recommendation?

Issue 4(e): Subsequent Measurement of Lessee's Obligation to Make Payments

Background

Subsequent accounting for finance leases under IAS 17 and Statement 13 apportions the minimum lease payments between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term to provide a constant periodic rate of interest on the remaining balance of the liability.

Alternative views for the subsequent measurement of the liability are (1) reducing the obligation at each accounting period under a mortgage amortization model without breaking the lease payment into a principal and interest component or (2) fair value.

Staff Recommendation

The staff recommends that the payments for the minimum lease payments be apportioned between a finance charge and a reduction of the outstanding liability, consistent with the treatment of finance leases currently in place.

Question for the Board

Q17. Do Board members agree with the staff's recommendation?

ISSUE 5: LEASE CLASSIFICATION (FASB MEMO NO. 20)

Background

IAS 17 and Statement 13 require lessees to classify all lease contracts as either a finance (capital) lease or an operating lease. The main reason to retain the classification requirement would be that the Boards believe that the accounting model for leases that are in-substance purchases should be different from other lease contracts. For example, the Boards could conclude that

initial or subsequent measurement, contingent rentals, presentation, or other items should be different for finance leases.

Staff Recommendation

The staff believes that the advantages of removing the classification are significant. Consequently, the staff recommends that the Boards remove the requirement for lessees to classify leases as operating or finance and develop a single model of accounting for all lease contracts.

Question for the Board

Q18. Do the Boards agree to remove the requirement for lessees to classify leases as operating or finance and develop a single model of accounting for all lease contracts?



Board Meeting Handout
FSP FAS 144-d, *Amending the Criteria for Reporting a Discontinued Operation*
July 23, 2008

PURPOSE OF THE MEETING

1. The purpose of this meeting is to (a) deliberate issues related to the scope of the activities that may be classified as discontinued operations, related disclosures, and applicability to nonpublic entities, and (b) ask for permission to proceed with a preballot draft of a proposed FASB Staff Position (FSP).

ISSUE 1: ADDITIONAL CRITERIA FOR THE DEFINITION OF DISCONTINUED OPERATIONS

Background

2. At its May 14, 2008 Board meeting, the FASB indicated its preference to amend definition of discontinued operations and include subsidiaries that meet the criteria to be classified as held for sale on acquisition.
3. At its June 18, 2008 Education Session, the FASB discussed an alternative that would include in the definition of discontinued operations all *components of an entity*¹ that meet the criteria to be classified as held for sale on acquisition. The FASB was not asked to make a decision since the meeting was held as an Education Session.
4. At its June 2008 Board meeting, the IASB discussed the alternative discussed at the FASB Education Session. IASB Board members had concerns about expanding the

¹ Statement 141 paragraph 41 defines as “comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.”

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definition to include all components of an entity that meet the criteria to be classified as held for sale on acquisition as a discontinued operation. The IASB did not make a decision but asked the staff to perform additional analysis related to the various alternatives for the definition of discontinued operations discussed by both Boards.

Alternatives Considered

5. The staff considered four alternatives for the additional criterion to meet the definition of discontinued operations when a component of an entity has been disposed of or is classified as held for sale, in addition to those components that are an operating segment. The four alternatives are:

View A: All *components of an entity* that meet the criteria to be classified as held for sale on acquisition

View B: All *subsidiaries* (in their legal form) that meet the criteria to be classified as held for sale on acquisition

View C: All *businesses* (as that term is defined in FASB Statement No. 141 (revised 2007), *Business Combinations*) that meet the criteria to be classified as held for sale on acquisition

View D: No additional criteria, only an operating segment can meet the definition of a discontinued operation.

Staff Analysis and Recommendation

6. The staff supports View C for the following reasons:

- (a) The staff is of the view that the operating segment criterion is the general principle that meets the objective of reporting discontinued operations. Any additional criteria should be considered an exception to the general principle.
- (b) The staff believes a “held for sale on acquisition exception” should be included in the definition of discontinued operations to properly present trends in income from continuing operations.
- (c) The staff believes the “held for sale on acquisition exception” will likely be limited in use since the held for sale criteria in Statement 144 would generally be difficult to meet for an acquisition of a *business*.
- (d) The staff shares the view that the reference to ‘subsidiaries’ focuses on the legal form of the component of an entity and should not be used as the criterion for determining whether and when a component is a discontinued operation. Referring to a *business* (as defined in Statement 141(R)) to define the “held for

sale on acquisition exception” would adhere to a general principle to only include disposal activities that reflect a strategic shift in an entity’s business strategy without depending on the legal form.

Question for the Board

- 1. Does the Board agree to amend the proposed definition of discontinued operations to include businesses (as defined in Statement 141(R)) that meet the criteria to be classified as held for sale on acquisition (View C)? If the Board does not agree with the staff recommendation (View C), does the Board agree with Views A, B, or D?***

Required by Law or Regulation

7. If the Board decides on either View A, B, or C in Question 1, should there be an additional requirement that a component of an entity, subsidiary, or business (depending on the View selected in Question 1) that meets the criteria to be classified as held for sale on acquisition only be classified as a discontinued operation if the disposal is **required by law or regulation**. Proponents of this alternative believe that this additional requirement could provide discipline over what components are classified as discontinued operations and thus would avoid abuse.
8. Opponents of this alternative (staff recommendation) believe that, in some cases, it would be very difficult to determine what is required by law or regulation. These opponents contend that the form of whether the disposal was imposed by law or regulation should not dictate the accounting and reporting of discontinued operations.

Question for the Board

- 2. If the Board selects View A, B, or C in Question 1, does the Board agree that it should not include an additional requirement that would limit the component of an entity, subsidiary, or business that meets the criteria to be classified as held for sale on acquisition to be reported in discontinued operations only when it is required by law or regulation?***
9. Based on the staff recommendations above, the revised definition of discontinued operations would be as follows:

A discontinued operation is a component of an entity that:

- (a) meets the definition of an *operating segment* in accordance with FASB Statement No. 131, *Disclosures about Segments of an Enterprise and*

- Related Information*, and either has been disposed of or is classified as held for sale, or
- (b) is a *business* in accordance with FASB Statement 141 (revised 2007), *Business Combinations* that meets the criteria to be classified as held for sale on acquisition.

ISSUE 2: DISCLOSURE EXEMPTIONS – HELD FOR SALE ON ACQUISITION

Background

10. Statement 144 prescribes the disclosures that are required for all components of an entity that either have been disposed of or are classified as held for sale including components that meet the criteria to be classified as held for sale on acquisition. Each disclosure is identified either as a new requirement (based on the decisions made to date in this project) or as an existing Statement 144 requirement (hereinafter collectively referred to as “discontinued operations disclosures”):
- 1) A description of the facts and circumstances leading to the expected disposal, the expected manner and timing of the disposal (Statement 144, paragraph 47(a))
 - 2) If applicable, the segment in which the long-lived asset (disposal group) is reported under Statement 131 (Statement 144 paragraph 47(d))
 - 3) The gain or loss recognized for any initial or subsequent write-down to fair value less cost to sell (Statement 144, paragraph 47(b))
 - 4) Amount of pretax profit or loss reported in discontinued operations (Statement 144, paragraph 47(c))
 - 5) Major classes of assets and liabilities of a disposal group (Statement 144, paragraph 47(a))
 - 6) Major classes of income and expenses, including impairments, interest, depreciation and amortization (a new requirement)
 - 7) If applicable, net income attributable to the parent (controlling interest) (a new requirement)
 - 8) Major classes of cash flows (operating, investing, and financing) (a new requirement).
11. At its April 2008 Board meeting, the IASB decided that the equivalent disclosures 3-8 in the above paragraph should not be required for *subsidiaries* that meet the criteria to be classified as held for sale on acquisition in order to be consistent with the current disclosure exemptions in IFRS 5. At its May 14, 2008 Board meeting, the FASB did not make a decision but asked the staff to further analyze the interactions with the disclosure requirements in Statement 141(R).

12. Statement 141(R) disclosures that would be required for components of an entity that meet the criteria to be classified as held for sale on acquisition (hereinafter collectively referred to as “business combination disclosures”) are as follows:

- 1) For acquired receivables not subject to requirements of AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*,
 - (a) The fair value of the receivables
 - (b) The gross contractual amounts receivable
 - (c) The best estimate at the acquisition date of the contractual cash flows not expected to be collected

The disclosure shall be provided by major class of receivable, such as loans, direct finance leases in accordance with Statement 13, and any other class of receivables. (Statement 141(R), paragraph 68(h))

- 2) The amounts recognized as of the acquisition date for each major classes of assets acquired and liabilities assumed (paragraph A107) (Statement 141(R), paragraph B68(i))
- 3) If the acquirer is a *public business enterprise*, as described in paragraph 9 of Statement 131:
 - (i) The amounts of revenues and earnings of the acquiree since the acquisition date included in the consolidated income statement for the reporting period
 - (ii) The revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period (*supplemental pro forma information*)
 - (iii) If comparative financial statements are presented, the revenue and earnings of the combined entity for the comparable prior reporting period as though the acquisition date for all business combinations that occurred during the year had occurred as of the beginning of the comparable prior annual reporting period (*supplemental pro forma information*) (Statement 141(R), paragraph 68(r))

Staff Analysis and Recommendation

13. The staff believes that disclosures that do not provide a benefit to the user of the financial statements should not be required. The purpose of the discontinued operations and business combination disclosures is to provide the user with the ability to analyze the changes and trends over reporting periods within the specific financial statement line items and categories. If a business meets the criteria to be classified as held for sale on acquisition, the business activity will only be reflected in the financial statements for the current period and not in prior periods since the entity did not

consolidate the business at that time. Therefore, the staff does not recommend requiring discontinued operations or business combinations disclosures for businesses that meet the criteria to be classified as held for sale on acquisition.

14. The staff recommends all discontinued operation disclosures and business combination disclosures be exempt for businesses that meet the criteria to be classified as held for sale on acquisition except for:
 - a. A description of the facts and circumstances leading to the expected disposal, the expected manner and timing of the disposal (Statement 144, paragraph 47(a))
 - b. If applicable, the segment in which the long-lived asset (disposal group) is reported under Statement 131 (Statement 144 paragraph 47(d))

Question for the Board

3. *Does the Board agree that the disclosure exemptions in paragraph 14 should be provided to businesses (as defined in Statement 141(R)) that meet the criteria to be classified as held for sale on acquisition?*

Reconciliation between Note Disclosure and Face of the Financial Statements

15. At its July 16, 2008 Educational Session, FASB Board members noted that, based on the proposed disclosure requirements the Boards have agreed to thus far and the staff recommendation (disclosure exemption should be provided to businesses that meet the criteria to be classified as held for sale on acquisition), the amounts presented in the note disclosures would not reconcile to the amounts presented on the face of the financial statements in the following areas, unless an entity voluntarily provides such reconciliation:
 - (a) Major classes of income and expenses, including impairments, interest, and depreciation and amortization would not reconcile to post-tax profit or loss from discontinued operations in the statement of income.
 - (b) Major classes of assets and liabilities would not reconcile to total assets and total liabilities held for sale in the statement of financial position.
16. The staff notes that there are two situations where the amounts presented in the disclosures would not necessarily reconcile to the amounts presented on the face of the financial statements. Those two situations are:

- (a) Assuming that disclosure exemptions are provided to *businesses* that meet the criteria to be classified as held for sale on acquisition, the post-tax profit or loss amounts and the assets and liability amounts for those businesses would not be required to be presented in the notes.
- (b) As proposed, disclosures would be required for *major* classes of assets and liabilities and *major* income and expense items. Accordingly, any item the entity has determined as not being major would not be presented in the notes.

Staff Recommendation

17. The staff recommends the following:

- (a) If an entity presents the major classes of assets and liabilities classified as held for sale in the notes, an entity shall reconcile the amounts presented in the notes to the amounts presented on the face of the statement of financial position (that is, total assets held for sale and total liabilities held for sale). In doing so, an entity may:
 - (i) Aggregate the assets and liabilities of businesses that meet the criteria to be classified as held for sale on acquisition into *total assets of a business held for sale on acquisition* and *total liabilities of a business held for sale on acquisition*, respectively; and
 - (ii) Aggregate the assets and liabilities classified as held for sale (other than those in (i)) that are not disclosed separately because they were not considered to be major into *other assets* and *other liabilities*, respectively.
- (b) When an entity presents the major classes of income and expense of discontinued operations in the notes, an entity shall reconcile the amounts presented in the notes to the amounts presented on the face of the statement of income (that is, the post-tax profit or loss from discontinued operations). In doing so, an entity may:
 - (i) Aggregate the profit or loss of businesses that meet the criteria to be classified as held for sale on acquisition into *profit or loss of a business held for sale on acquisition*; and
 - (ii) Aggregate the income and expense items (other than those in (i)) that are not disclosed separately because they were not considered to be major into *other income and expenses*.

Question for the Board

4. ***Does the Board agree to include the requirement that if an entity presents the major classes of assets and liabilities classified as held for sale and/or major classes of income and expense of discontinued operations in the notes, an entity shall reconcile those note disclosures to the amounts presented on the face of the financial statements?***

ISSUE 3: DISCLOSURES FOR ALL COMPONENTS OF AN ENTITY THAT EITHER HAVE BEEN DISPOSED OF OR ARE CLASSIFIED AS HELD FOR SALE

Background

18. Both Boards have agreed to require the following disclosure for all components of an entity that either have been disposed of or are classified as held for sale, except for businesses (as defined in Statement 141(R)) that meet the criteria to be classified as held for sale on acquisition which is discussed in Issue 2:

- (a) The use of proceeds from disposal activities;
- (b) The major classes of revenues and expenses, including impairments, interest, depreciation and amortization;
- (c) If applicable, net income attributable to the parent (controlling interest)
- (d) The major classes of cash flows (operating, investing, and financing); and
- (e) The major classes of assets and liabilities.

Aggregation of Disclosures

19. At the June IASB Board meeting, the IASB decided it would remain silent as to whether the proposed disclosures could be aggregated for certain components of an entity that either have been disposed of or is classified as held for sale. The IASB also decided not to solicit input from constituents about this decision in the forthcoming Exposure Draft.

Staff Recommendation

20. The staff recommends that the Board continue to remain silent on this issue, leaving preparers and auditors able to decide on a level of aggregation that results in disclosures proportionate to the significance of the disposals to the entity. Nevertheless, the staff recommends that the Boards specifically ask in the Exposure Draft whether disclosures should be provided separately for each component of an entity and each non-current asset (disposal group) that either has been disposed of or is classified as held for sale.

Questions for the Board

5. *Does the Board agree that it should remain silent as to whether the proposed disclosures should be provided separately for each component of an entity and each non-current asset (disposal group) that either has been disposed of or is classified as held for sale?*
6. *Does the Board agree that the Exposure Drafts should include a question in the Notice to Recipients on whether the disclosures should be provided separately for each component and each non-current asset (disposal group) that either has been disposed of or is classified as held for sale?*

Use of Proceeds from Disposal Activities

21. In reviewing the preballot draft of the Exposure Draft to amend IFRS 5, IASB Board members noted:

- (a) The proposed disclosure may lead to requiring an entity to provide forward-looking statements, which are usually not provided within the financial statements.
- (b) There are very few cases where an entity can specify the use of cash proceeds from a specific disposal activity. There also may be a long time difference between the disposal activity and the use of the proceeds. The statement of cash flows and the MD&A usually would provide the overall picture of what cash has come in and how it was used.
- (c) If the proposed disclosure requires only a general discussion and does not require the disclosure of the specific use of cash proceeds, the usefulness of the disclosure is questionable.

22. At the June IASB Board meeting, the IASB decided it would not require the disclosure of use of proceeds for all components of an entity that either have been disposed of or are classified as held for sale.

Staff Recommendation

23. The staff shares the concerns raised by IASB Board members and, accordingly, recommends that this specific disclosure item be deleted from the proposed disclosure requirements.

Question for the Board

7. *Does the Board agree that the use of proceeds from disposal activities should be excluded from the disclosure requirements?*

ISSUE 4: PRIVATE COMPANY GUIDANCE

24. Based on the proposed definition of discontinued operations, reporting discontinued operations will be limited to a component of an entity that meets the definition of an operating segment (as that term is defined in paragraph 10 of Statement 131). Even though private companies are not in scope of Statement 131, and, therefore, not required to apply Statement 131 and determine or disclose their operating or reportable segments, private companies would be required to determine if a component of an entity that either has been disposed of or is classified as held for sale meets the definition of an operating segment to be reported as a discontinued operation.
25. To clarify this point, the IASB has added the following language to the preballot draft of the Exposure Draft to amend IFRS 5:

An entity shall determine whether the component of an entity meets the definition of an operating segment regardless of whether it is required to apply IFRS 8.

Staff Recommendation

26. The staff recommends including clarifying language to the proposed FSP related to operating segment criterion being applicable to entities that are not required to apply Statement 131. This would be consistent with the Exposure Draft to amend IFRS 5, the current and proposed discontinued operation guidance, and similar clarifying language in Statement 142.

Questions for the Board

8. *Does the Board agree to include clarifying language in the proposed FSP that an entity shall determine whether the component of an entity meets the definition of an operating segment regardless of whether it is required to apply Statement 131?*

9. *Does the Board want to proceed with a preballot draft of a proposed FSP?*