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LETTER OF COMMENT NO. 

Technical Director
File Reference: Proposed FSP FAS 144-d
Financial Accounting Standards Board
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23 January 2009

**International Accounting Standards Board Exposure Draft of *Discontinued Operations: Proposed Amendments to IFRS 5*;
Financial Accounting Standards Board Proposed FASB Staff Position, *Amending the Criteria for Reporting a Discontinued Operation* (File Reference: Proposed FSP FAS 144-d)
(the Exposure Drafts)**

Dear Sir / Madam

We appreciate the opportunity to respond to the International Accounting Standards Board's (IASB's) and the Financial Accounting Standards Board's (FASB's) (the Boards') Exposure Drafts about amending the criteria for reporting a discontinued operation. This letter represents the views of KPMG International and its member firms, including KPMG LLP (U.S.), and is being submitted to both the IASB and the FASB.

We support the view that discontinued operations should be reported when there is a strategic shift in an entity's operations, and the goal of having converged definitions of discontinued operations between IFRSs and U.S. GAAP. We also agree with the Boards' conclusion that a business meeting the criteria to be classified as held for sale on acquisition should be classified as a discontinued operation. However, as discussed in Appendix A to our letter, we believe that the Boards should provide further relief from the requirements of acquisition accounting for such businesses.

As discussed below and in more detail in Appendix A to this letter, we believe that the proposed definition of a discontinued operation may not achieve the Boards' stated goal that a discontinued operation should represent a strategic shift for an entity for certain businesses. Additionally, we believe that the proposed component-level disclosures may be excessive.



We agree with the FASB's decision that discontinued operations should be evaluated at a higher level than currently is the case under FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and that the continuing involvement criterion of Statement 144 should be eliminated from that consideration. We also believe that from a U.S. GAAP perspective an operating segment as defined by FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, is a well-understood concept and can provide a basis for evaluating whether a component that either has been disposed of or qualifies as held-for-sale is a discontinued operation, without the need to define a new term in U.S. GAAP.

We note that under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, a discontinued operation already is evaluated at a higher level than under Statement 144, and therefore we have mixed views as to whether the proposed change in IFRSs is either necessary or an improvement when viewed strictly from an IFRS perspective. However, if the Boards move forward with the change as proposed, then we believe that it would be helpful for the Basis for Conclusions to the amendment to IFRS 5 to note that the fact that a chief operating decision maker (CODM) begins to receive information about a component as part of the process of evaluating whether to dispose of it does not cause the component to become an operating segment.

In our experience in the real estate industry, it is common for the CODM to receive information on each of the entity's operating properties such that each property constitutes an operating segment under IFRS 8 *Operating Segments* and Statement 131. As such, each disposal of an operating property could result in discontinued operation classification. However, for entities that buy, manage and sell properties as a primary business, having every sale reported as a discontinued operation appears to be inconsistent with the principle that discontinued operations presentation is used only for strategic shifts in business strategy. Although we believe there should be a consistent approach to discontinued operations for all industries, we urge the Boards to consider the potential implications that the proposed amendments may have to businesses with this type of operating structure.

Appendix A to this letter provides our responses to the specific questions raised in the Exposure Drafts. Appendix B provides comments specific to the application of U.S. GAAP.

If you have any questions about our comments or wish to discuss any of these matters further, please contact Mary Tokar or Julie Santoro with KPMG International Financial Reporting Group in London at +44 (0)20 7694 8871, or Mark Bielstein or Paul Munter with KPMG LLP in New York at +1 (212) 909-5419 or +1 (212) 909-5567, respectively.

Yours sincerely

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Appendix A: Responses to the questions set out in the Exposure Drafts

IASB Q1(a), FASB Q1. Do you agree with the proposed definition of a discontinued operation? Why or why not? If not, what definition would you propose and why?

KPMG Response: We have mixed views on the proposed definition of a discontinued operation. While we agree that strategic shifts in operations should be presented separately from other disposal decisions, we have mixed views as to whether the disposal of an operating segment is the best indicator of a strategic shift in operations.

Use proposed definition

The proposed definition, using an operating segment as defined by IFRS 8 and Statement 131, meets the Boards' objective of achieving a converged approach to reporting discontinued operations. *Operating segment* is a defined and converged term under IFRSs and U.S. GAAP, and its use as the basis for determining whether a component is a discontinued operation would achieve convergence between IFRSs and U.S. GAAP without introducing a new term or concept. Additionally, the concept of an operating segment has been applied under U.S. GAAP for more than ten years and appears to be well understood in practice in the U.S. However, as noted below, we believe that there are situations in which the disposal of an operating segment does not necessarily represent a strategic shift in operations.

We believe that for certain businesses, including some in the real estate industry, the proposed definition with elimination of the continuing involvement criterion may result in an *increase* in the number of components reported as discontinued operations. In the real estate industry, in our experience each operating property often is an operating segment. Since properties often are sold while retaining continuing involvement, currently under U.S. GAAP those sales do not result in discontinued operations classification. Under the proposed amendments to IFRSs and U.S. GAAP we believe that more disposals of operating properties may be reported as discontinued operations in this industry. We urge the Boards to reach out to businesses that may have this type of operating structure to consider whether such reporting is consistent with the objective that a discontinued operation should represent a strategic shift for the entity.

Carry forward IFRS definition

Some believe that the current definition of a discontinued operation contained within IFRS 5, "a component that represents a separate major line or business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations", is consistent with the objective that a discontinued operation represent a strategic shift in operations. We acknowledge that a definition that refers to a "major line of business" and "geographical area" can be subjective or may require the Boards to define terms not defined currently in IFRSs and U.S. GAAP, which can result in a demand for increased interpretive guidance; however, we believe that the current definition has worked reasonably well under IFRSs.

Regardless of the final definition chosen by the Boards, we believe that the benefit of using a management approach to determine discontinued operations is appropriate since it is management that establishes the strategic objectives of the entity.

If the Boards proceed with the operating segment approach to determining a discontinued operation, then we believe that it would be helpful for the Boards to include in the Basis for Conclusions an observation that the review of a component's operating information by the entity's CODM *in order to make decisions about* the disposal of that component does not cause the component to become an operating segment, if the component otherwise was not an operating segment. We believe that this does not constitute a *regular review* of operating results by the CODM for the purpose of making decisions about resources to be allocated to the segment and to assess its performance as contemplated in the definition of an operating segment.

We suggest that the Boards clarify certain issues that we expect may arise in practice:

- Whether a change in investment structure without elimination of an operating segment is intended to be reported as a discontinued operation. For example, if an entity ceases to have a controlling interest in a subsidiary while retaining a non-controlling interest that continues to be an operating segment, would discontinued operations be reported? In this circumstance the operating segment would no longer report activities of a consolidated component of an entity but instead would report the effect of applying the equity method or proportionate consolidation (under IFRSs) to its interest in the investment; however, the underlying activities of the component may continue to be reported to the CODM such that it continues to be an operating segment.
- Whether the disposal that includes more than one operating segment, for example a disposition of an entire operating segment along with operating assets of a second operating segment, would be reported as a discontinued operation; and if so, would it include only the operating segment disposed of in its entirety or would the discontinued operation include the *entire* disposition?

We agree with the Boards' inclusion of a business meeting the criteria to be classified as held for sale on acquisition as a discontinued operation since there is no expectation that the activities will be a part of an entity's ongoing operations.

We suggest that the Boards consider providing further relief from detailed acquisition accounting for businesses meeting the criteria to be classified as held for sale on acquisition. Retaining the requirements to present separately assets and liabilities held for sale, and to report net income or loss from discontinued operations computed in accordance with the standards for comprehensive income, does not provide the relief from acquisition accounting described in IFRS 5 paragraphs BC52 - BC55; the apparent "shortcut" method illustrated in example 13 of the implementation guidance to IFRS 5 is not part of the standard itself and in any event is not explicit in exempting an entity from applying the measurement requirements of standards other



than IFRS 5 to assets within the disposal group that are outside the measurement scope of IFRS 5. We believe that the Boards should allow entities to report the assets and liabilities of a business that meets the criteria to be classified as held for sale on acquisition as a single, net line item in the statement of financial position, which would be measured at fair value less costs to sell in its entirety, i.e., as a single asset rather than as a disposal group. This would eliminate the burden of detailed acquisition accounting for businesses acquired solely with the intent of disposal.

IASB Q1b, FASB Q2. Is it feasible for an entity that is not required to apply IFRS 8 or Statement 131 to determine whether the component of an entity meets the definition of an operating segment? Why or why not?

KPMG Response: We believe that entities should not have substantial difficulty in applying paragraphs 5-10 of IFRS 8 or paragraphs 10-15 of Statement 131 (i.e., determining operating segments prior to applying the aggregation criteria) even if those entities are not required to do so for other reasons. We believe that the use of a management approach to determining an operating segment allows entities to apply the guidance based on their current internal reporting structure and would not require complex judgments or analysis. However, see our response to Question 1(a) (IASB) / 1 (FASB) for our overall concerns in respect of the operating segment approach. See Appendix B regarding application to not-for-profit organizations under U.S. GAAP.

IASB Q2. 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?

KPMG Response: We agree that the amounts presented for discontinued operations should be based on the amounts presented in the statement of comprehensive income. Presenting discontinued operations using another measure, such as amounts reported to the CODM, would result in inconsistent measurement bases within the statement of comprehensive income.

IASB Q3a, FASB Q3. Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes would you propose and why?

KPMG Response: Generally we believe that the proposed disclosure requirements should provide sufficient information for financial statement users to assess the impact of a disposal on the entity's financial statements. However, we question whether all of the proposed disclosures are necessary. We believe that extending the disclosures to all components of an entity that have either been disposed of or are classified as held for sale, regardless of whether they are reported as a discontinued operation, could lead to a significant increase in disclosures. For example, the disclosures could require a large corporation to disclose information about the sale of a small subsidiary. Because these disclosures would relate to all components, including those that do not represent strategic shifts in an entity's operations, we are unclear how the disclosures address the Boards' stated objective of focusing on a strategic shift in operations. We encourage

the Board to discuss with users whether the benefits from these additional disclosures warrant the incremental costs that would be incurred by preparers.

We also suggest that the Boards clarify whether disclosures are required at the individual component / operating segment level or at an aggregated level when multiple components / operating segments are disposed of or are classified as held for sale. We believe that the disclosures should be made at the component / operating segment level because that is the level at which the held for sale or discontinued operations assessment is made. However, see our overall comment above in respect of component-level disclosures.

FASB Q4. Under the disclosure requirements, income tax expense is not calculated and disclosed for components reported within continuing operations. Do you agree or do you believe it would be beneficial to require income tax expense or benefit to be calculated and disclosed for discontinued components of an entity within continuing operations? If so, how would you calculate and disclose the income tax expense or benefit?

KPMG Response: We agree with the Boards' proposal to not require the calculation and disclosure of income taxes to components of a business disposed of or classified as held for sale that do not meet the discontinued operations definition. We believe that allocating income taxes to one component of continuing operations would be inconsistent with the provisions for intraperiod tax allocation and would add unnecessary complexity to financial reporting.

IASB Q3b, FASB Q5. Do you agree with the disclosure exemptions for a business that meets the criteria to be classified as held for sale on acquisition? Why or why not? If not, what changes would you propose and why?

KPMG Response: We agree with the Boards' proposed disclosure exemptions for a business that meets the criteria to be classified as held for sale on acquisition. Because the activities would not be an ongoing part of an entity's business and never would have been reported within continuing operations, financial statement users do not need disclosures to determine which aspects of the statements of financial position and comprehensive income will cease to exist.

IASB Q4, FASB Q6. Are the effective date and transition requirements sufficient for compiling the information needed? Why or why not? If not, what would you propose and why?

- *The FASB proposes retrospective reporting and disclosure, effective for years beginning after 12/15/09 and allows early adoption.*
- *The IASB proposes retrospective reporting but prospective disclosure. It does not propose an effective date and allows early adoption.*

KPMG Response: We agree with the IASB's conclusion that entities may face difficulty in obtaining the information required to apply the proposed disclosure requirements



retrospectively, particularly if the component was disposed of or classified as held for sale but did not meet the definition of discontinued operations in prior years. Accordingly, we agree with the conclusions expressed in BC21 of the IASB's proposal and believe that the disclosure requirements should be applied prospectively.

However, we believe that a further clarification is required under IFRSs when application of the amended standard leads to a new discontinued operation being identified in the comparative period, but the disclosures required under the superseded standard are not available. In that case we believe that there should be an exemption from disclosure to the extent that it is impracticable to obtain the necessary information.

We believe that applying the Exposure Drafts to financial statements for the first annual reporting period beginning on or after 1 January 2010 for IFRSs, and for years beginning after December 15, 2009 for U.S. GAAP, would allow preparers sufficient time to implement the revised standards. We agree with the Boards' proposal to allow early adoption in order to allow those entities able to collect the data to implement sooner.



Appendix B: Other comments specific to U.S. GAAP

Application of Statement 131 by Not-for-Profit Entities

Proposed FASB Staff Position 144-d would apply to both business entities and not-for-profit entities. Our responses in Appendix A apply equally to both, with the following exception. We believe some not-for-profit entities may have difficulty applying Statement 131 to determine whether a component meets the definition of a discontinued operation. Statement 131 paragraph 118 indicates the FASB decided to exclude not-for-profit organizations from the scope of the statement, in part, because “there are likely to be unique characteristics of some of those entities ... which the Board has not studied.” We encourage the FASB to examine the potential unique issues involved in identifying operating segments of not-for-profit organizations before requiring those organizations to apply the elements of Statement 131 to the determination of discontinued operations.