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Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 12

File Reference: Proposed FSP FAS 144-d

Dear Mr. Golden,

Deloitte & Touche LLP is pleased to comment on proposed FASB Staff Position No. FAS 144-d, "Amending the Criteria for Reporting a Discontinued Operation" (the "proposed FSP").

We continue to support the convergence efforts of the FASB and IASB in developing a set of widely accepted, high-quality global accounting standards. We also support the Board's joint project with the IASB to create a common principle for reporting discontinued operations. While we support the development of a final FSP, we believe that the proposed FSP is inconsistent regarding the level at which discontinued operations are presented in the financial statements and the required disclosures in the footnotes, and that this inconsistency should be addressed. We suggest that the Board rely less on a bright-line definition for discontinued operations and build guidance supporting the principle that a discontinued operation is a disposal activity that represents a "strategic shift in an entity's operations." The disposal of an operating segment would generally be a strategic shift, but so might be other disposal activities that do not meet the operating segment criteria under Statement 131.¹ We believe that once the principle for reporting discontinued operations is established, it should be consistently applied to presentation and disclosures.

The Appendix contains our detailed responses to questions in the proposed FSP's Notice for Recipients.

If you have any questions concerning our comments, please contact Sam Loughry at (203) 761-3519.

Sincerely,

Deloitte & Touche LLP

¹ FASB Statement No. 131, *Disclosures About Segments of an Enterprise and Related Information*.

APPENDIX
Deloitte & Touche LLP
Responses to Questions in the FSP's Notice for Recipients

Overview

When Statement 144² was initially exposed, we supported expansion of the reporting of a discontinued operation to a component of an entity from a segment of a business under Opinion 30³ because we believed such expansion would provide more relevant and useful information regarding an entity's ongoing business to users of the financial statements. In the Background Information and Basis of Conclusions section of the proposed FSP, the Board concluded that one of its reasons for reverting to operating segments for presentation of discontinued operations was that some users of financial statements believe that only a "strategic shift in operations" of an entity should be presented as discontinued operations. We support a shift from a definition to a principle for reporting discontinued operations and suggest the Board provide guidance on applying the principle that discontinued operations represent a strategic shift in operations.

The Board also concluded that users want the information previously provided at the component-of-an-entity level, plus additional information not currently required, such as major classes of cash flows, to be disclosed in the notes to the financial statements. The inconsistency between these conclusions, i.e., that users of financial statements want (1) the presentation of discontinued operations based on a principle and (2) disclosures based on a bright-line definition of a component of an entity, raises questions about what information the majority of users of financial statements really need regarding discontinued operations. We recommend that the Board study this issue in more detail and provide a consistent solution. If users of the financial statements want information on strategic shifts in operations of an entity, the financial statement presentation and footnotes should reflect that.

While we support the FASB's convergence efforts in the FSP, because the scope of Statement 144 differs from the scope of IFRS 5,⁴ there will continue to be differences in reporting discontinued operations. For example, Statement 144 excludes equity method investments from its scope, but IFRS 5 does not. Accordingly, disposal of an equity method investment cannot be presented as a discontinued operation under U.S. GAAP, but it could qualify as such under IFRSs. While an examination of these differences was not within the scope of this project, we believe the Boards should consider scope differences in further convergence projects.

Question 1

Do you agree with the proposed definition of a discontinued operation? Why or why not? If not, what definition would you propose and why?

The FSP's proposed definition of a discontinued operation and its elimination of the qualifying conditions from paragraph 42 of Statement 144 are beneficial in that they reduce accounting complexity. To further reduce complexity, the Board could eliminate the requirement for an entity to identify a component of an entity and move to a principle for reporting discontinued operations. The disposal of an operating segment would generally be a

² FASB Statement No. 144, *Accounting for Impairment of Disposal of Long Lived Assets*.

³ APB Opinion No. 30, *Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*.

⁴ IFRS 5, *Non-current Assets Held for Sale and Discontinued Operation*.

strategic shift, but so might be other disposal activities that do not meet the operating segment criteria under Statement 131.

For example, the proposed new definition may fail to capture certain disposals by an entity that follows a matrix form of organization. Statement 131 requires that in determining operating segments, an entity with a matrix organization look to product and service lines rather than geographical areas if the chief operating decision maker regularly reviews the operating results of both sets of components. Therefore a disposal of the geographical component may be a "strategic shift in an entity's business" but not be reported as a discontinued operation because it was not designated as an operating segment.

We believe that it is appropriate not to combine the operations of an acquired business that meets the definition of held for sale upon acquisition with the continuing operations of the entity, because the operations have not been and will not be integrated into the entity.

Question 2

Is it feasible for an entity that is not required to apply Statement 131 (that is, a nonpublic business entity and a not-for-profit 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 Statement 131 and why?

In general, we believe it is feasible for an entity that is not required to apply Statement 131 to use the guidance in that standard to determine whether the disposal meets the definition of an operating segment when evaluating discontinued operations. This type of requirement is not unprecedented. For example, nonpublic entities with more than one reporting unit are required to apply the guidance in Statement 131 to test goodwill for impairment. However, a final FSP that is based on a principle of reporting a discontinued operation for a disposal that is a strategic shift in an entity's operations, as opposed to one that is based on a bright-line definition, will alleviate the pressure on an entity to apply Statement 131 to determine whether to report a disposal as a discontinued operation.

Question 3

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

As stated above, we believe that the principle for reporting discontinued operations should be consistently applied to financial statement presentation and footnotes. Additional disclosures for components of an entity that do not meet the principle of a strategic shift in operations do not appear necessary.

Question 4

Under the disclosure requirements, income tax expense or benefit does not have to be calculated and disclosed for components of an entity that are reported within continuing operations and that have been disposed of or are classified as held for sale. 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?

If it is determined that users of the financial statements want detailed information at the component-of-an-entity level, then information regarding income tax expense or benefit would appear to be useful.

Question 5

Do you agree with the disclosure exemptions for a business or a nonprofit activity 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?

We agree with the disclosure exemptions for businesses that meet the criteria to be classified as held for sale on acquisition.

Question 6

Are the effective date and transition provisions sufficient for compiling the information needed? Why or why not? If not, what would you propose and why?

We believe the transitional provisions are appropriate. However, we recommend that the Board clarify which operating segment structure applies in the assessment of whether a disposal group represents a discontinued operation. For example, at transition, should an entity apply its current operating segment structure to historical disposals or should it use the operating segment structure that was in place at the time of the disposal?

We believe that the assessment of whether a disposal group that meets the definition of a discontinued operation should be based on the operating segment structure in place at the time management makes the disposal decision. After a disposal group is presented as a discontinued operation, it should continue to be presented as such in future financial statements, even if management subsequently changes its operating segment structure.

Paragraph 13 of the proposed FSP provides disclosure requirements in addition to those that have historically been required for a component of an entity that has been previously disposed of or classified as held for sale. We recommend that the transition requirements regarding these additional disclosures be applied prospectively, which is similar to the transition guidance outlined by the IASB in its proposed amendments to IFRS 5. While comparability to future discontinued operations may be compromised, the cost to provide such disclosures potentially outweighs the benefits to the user.