



Grant Thornton



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LETTER OF COMMENT NO. 16

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Re: File Reference Proposed FSP FAS 144-d

Grant Thornton LLP appreciates the opportunity to comment on the proposed FASB Staff Position FAS 144-d, "Amending the Criteria for Reporting a Discontinued Operation."

We are in support of the amending the definition of a discontinued operation to limit what activities are currently required to be classified as discontinued operations in the income statement as discontinued operations under FASB Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Further, eliminating the difference between the definition of discontinued operations under International Financial Reporting Standards and FASB Statement 144 is important and welcomed in terms of continuing the convergence efforts of the International Accounting Standards Board and the FASB. We support the issuance of a FSP to amend the criteria for reporting discontinued operations, but we believe that the proposed guidance should be refined as indicated in our responses to the following questions posed in the proposed FSP's Notice to Recipients.

#### Question 1

*The proposed FSP would amend the definition of a discontinued operation so that a discontinued operation is a component of an entity that is (a) an operating segment (as that term is defined in 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) a business (as that term is defined in FASB Statement No. 141 [revised 2007], *Business Combinations*) or a nonprofit activity that meets the criteria to be classified as held for sale on acquisition. Do you agree with the proposed definition of a discontinued operation? Why or why not? If not, what definition would you propose and why?*

In regards to part a of the definition above, we agree with the argument that a disposal activity should be reported as a discontinued operation if it represents a strategic shift in an entity's operations as described in the proposed FSP's paragraph A2. We also agree that in most cases

the disposal of an operating segment is likely to represent such a shift. However, by using an operating segment as the threshold in the definition, it is possible that discontinued operation reporting will be required in instances when a strategic shift has not occurred despite the disposal of an operating segment.

Although the determination of operating segments is based on how the Chief Operating Decision Maker (CODM) makes decisions about allocating resources and assessing performance, the number and nature of the operating segments depends on the amount of information provided to and regularly reviewed by the CODM. This individual, or individuals, may choose to review at an extremely detailed level, which could result in the identification of numerous operating segments. This in turn could result in the disposal of an operating segment being identified as a discontinued operation despite the fact that the disposal does not constitute a strategic shift in the entity's operations.

For example, in the real estate industry we believe that in certain smaller or medium sized entities, the CODM may review information on each individual property, which might constitute operating segments under paragraph 10 of Statement 131. We question whether disposal of an individual property would represent a strategic shift in operations in all cases.

We suggest that the Board reconsider paragraph 9 of the proposed FSP and clarify that the disposal must constitute a strategic shift in the entity's operations in order to meet the definition of a discontinued operation. For example, the Board could provide factors to be considered in determining when a disposition constitutes a strategic shift in operations. We also ask the Board to indicate there is a rebuttable presumption that the disposal of an operating segment represents strategic shift in operations.

On the subject of the definition of a not-for-profit activity in the FSP and in Statement 144, as amended, we believe it should either (a) include a reference to the definition of a not-for-profit organization in FASB Statement 116 to explain the characteristics that distinguish a not-for-profit organization/ activity from a for-profit business, or (b) explicitly include those characteristics in the footnotes in this FSP and Statement 144, as amended. Furthermore, we assume that the proposed definition of a not-for-profit activity is intended to be identical to the definition that will be provided in the final FASB Statement on not-for-profit organization mergers and acquisitions. We also expect that the forthcoming Statement will provide guidance on applying the definition of a not-for-profit activity that will be similar to that provided in FASB Statement 141 (revised 2007), *Business Combinations*, on applying the definition of a business. We believe that such implementation guidance would be necessary for the proposed definition of a not-for-profit activity to be applied on a consistent and comparable basis.

Additionally, we find the instructions for not-for-profit organizations in proposed paragraph 17 of the FSP (and in the corresponding amendment to Statement 144 in proposed paragraph 48A) to be inaccurate in some cases and somewhat confusing:

- Paragraph 17(a) states, "References to a business or businesses should be replaced with references to a nonprofit activity or nonprofit activities." However, the consolidated

financial statements of a not-for-profit organization may include a business or businesses. It is not clear why all of the references to a business or businesses in the proposed FSP and amendments to Statement 144 would not be relevant to a not-for-profit organization.

- Paragraph 17(c) states, “References to profit or loss should be replaced with references to changes in net assets.” We suggest that the Board clarify whether the references to changes in net assets could apply to any net asset classification or only to changes in unrestricted net assets.
- Paragraph 17(d) states, “References to income from continuing operations before income taxes should be replaced with references to income from continuing operations.” The illustration in paragraph 167 of FASB Statement 117, *Financial Statements of Not-for-Profit Organizations*, uses the caption “changes in net assets before effects of discontinued operations” rather than “income from continuing operations” as proposed in paragraph 17 (d). We also note that health care organizations are required to report discontinued operations separately from of the performance indicator. We suggest that the FASB reconsider, revise, and clarify the proposed instructions in the FSP.

We agree with part b of the definition.

### **Question 2**

*Based on the proposed definition of a discontinued operation, an operating segment is the general level of aggregation for determining whether a component of an entity would be reported in the discontinued operation section of the income statement (or statement of activities for not-for-profit entities). The definition would no longer include certain subsidiaries and asset groups that do not meet the definition of an operating segment. 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?*

We believe that it is feasible for an entity that is not required to apply Statement 131 to determine whether a component of an entity meets the definition of an operating segment. In making this comment, we note that entities with recognized goodwill may already be required to identify operating segments under FASB Statement 142, *Goodwill and Other Intangible Assets*, as part of the process of allocating goodwill to reporting units.

### **Question 3**

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

We are concerned that the disclosure requirements of the proposed FSP may be excessive in comparison to the expected benefits to users of financial statements. In particular, we believe the disclosure requirements should apply only to a component of an entity that meets the definition of a discontinued operation. Disclosures related to components of an entity that are reported in continuing operations would provide limited benefits to users of the financial statements. Consistent with our response to question 1, we believe the objective of the proposed disclosures should be to provide information about significant disposals that

represent a strategic shift in operations. If the Board decides to issue the final FSP with the proposed disclosure requirements related to components of an entity that are reported in continuing operations, we believe that nonpublic entities should be exempted from the requirement.

**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?*

We agree that income tax expense or benefit should 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. This disclosure would increase complexity by requiring an arbitrary income tax calculation for all discontinued components of an entity that do not meet the definition of a discontinued operation, while providing limited usefulness to users of the financial statements.

**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 a business or a nonprofit activity that meets the criteria to be classified as held for sale on acquisition. A business that meets the criteria to be classified as held for sale on acquisition will only be reflected in the financial statements from the date of acquisition to disposal. The disposal should generally be expected to occur within one year. The disclosures would provide limited insight into comparative historical or forward-looking trend analysis. As a result, we believe requiring all of the proposed FSP's required disclosures would provide minimal benefit to a user of the financial statements for a business or a nonprofit activity that includes a component that meets 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 agree with the effective date and transition provisions.

We appreciate the opportunity to comment on the Exposure Draft and would be pleased to discuss our comments with Board members or the FASB staff. If you have any questions, please contact L. Charles Evans, Partner, Accounting Principles Consulting Group at 832.476.3614.



Very truly yours,

/s/ Grant Thornton LLP