APRIL 2, 2013

In Focus

Proposed Accounting Standards Update on Accounting for Discontinued Operations

Overview

The Financial Accounting Standards Board (FASB) on April 2, 2013, issued for public comment its proposal to improve financial reporting about discontinued operations of major business lines or major geographic areas of operations for public and private companies and not-for-profit organizations.

Proposed Accounting Standards Update, *Presentation of Financial Statements (Topic 205)—Reporting Discontinued Operations,* would require organizations to provide additional disclosures about discontinued operations such as operating, investing and financing cash flows.

Stakeholders are asked to review and provide comments on the proposal by August 30, 2013.

Why Did the FASB Undertake a Project on Discontinued Operations?

Investors have raised concerns that too many asset disposals that are recurring in nature qualify for being presented as discontinued operations, resulting in financial statements that are not decision-useful. Financial statement preparers also have raised concerns that the current rules are difficult to apply and unnecessarily costly.

In addition to addressing these issues, the amendments in this proposed Update would enhance convergence of the FASB's and the International Accounting Standards Board's (IASB) reporting requirements for discontinued operations.

The FASB is seeking stakeholder input on changes intended to redefine "discontinued operations" and expand disclosures.

What Would This Proposed Accounting Standard Do?

The proposed Update would redefine "discontinued operations" so that only those disposals of components that represent a significant strategic shift for the organization would qualify for discontinued operations reporting.

Additionally, the proposed Update would expand disclosures in order to provide users of financial statements with more information about the financial results of discontinued operations and disposals of individual components of an entity.

What Are the Main Provisions?

Under the amendments of this proposed Update, the definition of "discontinued operation" would be changed as follows:

- Only those *components of an entity* (organization) that represent a separate major line of business or major geographic area of operations would be eligible for discontinued operations presentation in the financial statements. Currently, a *component of an entity* (organization) that is a reportable segment, an operating segment, a reporting unit, a subsidiary, or an asset group is eligible for discontinued operations presentation.
- The following conditions in the current definition of discontinued operation would be eliminated:
  - The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the organization as a result of the disposal transaction.
  - The organization will not have any significant continuing involvement in the operations of the component after the disposal transaction.
- A business that, on acquisition, meets the criteria to be classified as held for sale would be a discontinued operation.
- Disposals of equity method investments that meet the

definition of discontinued operation would be eligible for discontinued operations presentation.

The amendments of this proposed Update would require the following disclosures about discontinued operations:

- The major income and expense items constituting the pretax profit or loss from a discontinued operation for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported (either in a single continuous statement of comprehensive income or in two separate but consecutive statements).
- The major classes of cash flows (operating, investing, and financing) of the discontinued operation for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported.
- If the discontinued operation includes a noncontrolling interest, the pretax profit or loss attributable to the parent for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported.
- A reconciliation of the major classes of assets and liabilities of the discontinued operation classified as held for sale that are disclosed in the notes to the financial statements to total assets and total liabilities of the disposal group classified as held for sale that are presented separately on the face of the statement of financial position.
- A reconciliation of the major income and expense items from the discontinued operation that are disclosed in the notes to the financial statements to the after-tax profit or loss from the discontinued operation that is presented on the face of the statement of comprehensive income for the periods that the results of operations of the discontinued operation are reported in the statement where net income is reported.

The proposed amendments also would require public companies to provide disclosures about the disposal of an individually material component of an organization that does not qualify for discontinued operations presentation in the financial statements, including:

- The pretax profit or loss attributable to the component of an organization for the period in which it is sold or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported
- If the component of an organization includes a noncontrolling interest, the pretax profit or loss attributable to the parent for the period in which it is sold or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported
- A reconciliation of the major classes of assets and liabilities of the component of an organization classified as held for sale that are disclosed in the notes to the financial statements to total assets and total liabilities of the disposal group classified as held for sale that are presented separately on the face of the statement of financial position.

The proposed amendments would require nonpublic organizations to provide disclosures about a disposal of an individually material component of an organization that does not qualify for discontinued operations presentation in the financial statements, including:

- The pretax profit or loss attributable to the component of an organization for the period in which it is sold or is classified as held for sale
- If the component of an organization includes a noncontrolling interest, the pretax profit or loss attributable to the parent for the period in which it is sold or is classified as held for sale.

Finally, the proposed amendments would expand the disclosures about an organization's continuing involvement with a discontinued operation, including:

- The amount of any cash inflows (outflows) from (to) the discontinued operation
- Disclosures about a discontinued operation in which an organization retains an equity method investment after the disposal transaction.

Those continuing involvement disclosures would be required until the results of operations of the discontinued operation are no longer separately presented in the statement where net income is reported.

How Does This Update Compare with International Financial Reporting Standards (IFRS)?

The proposed amendments to the definition of discontinued operation are very similar to the definition of discontinued operation in IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations.*

Both definitions would include the separate major line of business or major geographical area of operations criteria. However, the amendments in this proposed Update would require that a major line of business or major geographical area of operations be comprised of a *component of an entity* (as defined in U.S. Generally Accepted Accounting Principles, or GAAP) or a group of components of an organization, rather than a *cash-generating unit* (as defined in IFRS 5) or a group of cash-generating units.

- Under U.S. GAAP, a *component of an entity* may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group.
- Under IFRS, a cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The FASB maintained this distinction in terminology because the term *component* is used elsewhere in U.S. GAAP, for example, in accounting for goodwill.

What Type of Organizations Are Affected by the Amendments in This Update?

The amendments in this Update apply to all public and private companies and not-for-profit organizations that have either:

- A component of an organization that either is disposed of or meets all of the criteria in *Property, Plant and Equipment (Topic 360),* paragraph 360-10-45-9, to be classified as held for sale
- A business that, on acquisition, meets all of the criteria in *Property, Plant and Equipment (Topic 360),* paragraph 360-10-45-9, to be classified as held for sale.

When Would the Amendments Be Effective?

The Board will determine an effective date based on the stakeholder feedback it receives on the proposed Update.

The proposed amendments would be applied prospectively to all disposals (or classifications as held for sale) of components of an organization that occur within annual periods beginning on or after the period of adoption, with earlier application permitted.

What Are the Next Steps in the Process?

Stakeholders are encouraged to review and provide feedback on the proposed Update by August 30, 2013. Further information, including the proposed Accounting Standards Update and a press release, is available on the FASB website at www.fasb.org.

The FASB will consider the comments received on its proposal prior to finalizing the standard.

For more information about the project, please visit the FASB's website at www.fasb.org.

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