



August 9, 2013

Ms. Susan Cospers
Technical Director
File Reference No. 2013-230
Financial Accounting Standards Board
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PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update, Presentation of Financial Statements (Topic 205)—Reporting Discontinued Operations ("the proposal").

We support the board's efforts to develop an improved definition of a discontinued operation. Certain stakeholders have expressed concerns that the current guidance results in financial statements that are not decision-useful and are more costly to prepare because too many disposals qualify for discontinued operations presentation. We agree with the board that only disposals representing major strategic shifts in operations should be reported as discontinued operations. We also believe that dispositions of a major line of business or major geographical area of operations should serve as indicators of a major strategic shift but not as independent criteria. We do not agree, however, with certain of the proposed disclosure requirements, particularly those relating to disposals of individually material components of an entity. Our observations are discussed in more detail below.

Definition of a discontinued operation

The disposal of a component of an entity that represents a major line of business or major geographical area of operations may be a strong indicator of a major strategic shift in an entity's operations. Other disposals may also be an indicator that a major strategic shift in operations has occurred, such as the disposal of a major reporting unit. On the other hand, there may be instances when the major line of business or major geographical area of operations criteria may inappropriately include a disposal that does not represent a major strategic shift in operations.

For these reasons we recommend that the definition of a discontinued operation incorporate the underlying principle that disposals should represent a major strategic shift in operations to be reported as discontinued operations. This underlying principle should be included in the amendments to the codification rather than in the basis for conclusions. We believe that incorporating the major line of business and major geographical area of operations thresholds as indicators of a major strategic shift would still promote the board's desired level of convergence with IFRS in this area.

Further, while we agree that the existence of significant continuing involvement with a disposed component should not preclude presentation as a discontinued operation in all cases, we believe that an assessment of the nature and extent of continuing involvement should remain a consideration when evaluating whether a major strategic shift in operations has occurred.



Disclosures

We agree that several of the proposed disclosures would provide more relevant information to users about discontinued operations. However, we question whether the benefits to users of some of the proposed disclosures would outweigh the costs. We encourage the board to solicit additional user input and utilize the concepts being discussed as part of the disclosure framework project to determine what type of information is most relevant to users, balanced against the cost of providing that information.

In particular, we do not agree with the proposed requirement to identify individually material components of an entity that have been sold or are classified as held for sale but are not presented as discontinued operations and to provide balance sheet and income statement disclosures for these disposals. This requirement would result in a more complicated, multi-tiered disclosure approach for disposals whereby (i) disposals of a major line of business or major geographical area of operations would be presented as discontinued operations accompanied by certain disclosures; (ii) individually material disposals would require specific disclosures; and (iii) all other disposals and assets held for sale would continue to require certain disclosures under existing guidance. We recommend that disclosures be required for discontinued operations and a reduced set of disclosures be required for all other disposals in the aggregate.

We encourage the board to explore with users and preparers alternative disclosures that would provide relevant income statement information about all disposals, in the aggregate, that are not presented as discontinued operations. For example, users may find useful in assessing an entity's future cash flows disclosure of revenues, pre-tax income or loss, and, if there is a noncontrolling interest, the pre-tax income or loss attributable to the parent for all disposals that are included in continuing operations. Users may also find that an aggregate disclosure that reconciles the major classes of assets and liabilities is sufficient for all disposals that are not presented as discontinued operations. This would result in a single set of disclosure requirements for all disposals that are included in continuing operations.

We also believe that gathering the data necessary to disclose cash inflows from and outflows to a discontinued operation after a disposal when significant continuing involvement exists may be challenging and that the disclosure may not always provide the most relevant information to users about the nature and extent of the continuing involvement. We believe that disclosures should continue to include qualitative information about the nature of significant continuing involvement. However, we recommend the board provide flexibility to allow an entity to disclose quantitative information that is most relevant about the extent of its significant continuing involvement in the circumstances, such as continuing revenues, services, or guarantees.

Further details on the points raised above, along with our responses to the specific questions that accompany the proposal are included in Appendix A.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions you may have. Please contact Patrick Durbin at (973) 236-5152, Larry Dodyk at (973) 236-7213, or Kevin Catalano at (973) 236-5057 regarding our comments.

Sincerely,

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP". The signature is written in black ink and is positioned above a thin horizontal line.



Appendix A

Question 1: *Do you agree with the proposed definition of discontinued operations? Is it understandable and operable?*

As discussed in our cover letter, we recommend that the definition of a discontinued operation incorporate the board's principle that a discontinued operation should represent a major strategic shift in an entity's operations. We recommend the board include indicators of when a major strategic shift in operations has occurred. Indicators of when a disposal group (which is a component of an entity that has been disposed of or is classified as held for sale) represents a major strategic shift in operations may include, but are not necessarily limited to: (i) a major line of business, (ii) a major geographical area of operations, (iii) a major operating segment, and (iv) a major reporting unit. We recommend the board also provide indicators of when a disposal is not a discontinued operation. For example, the consolidation of global manufacturing locations may indicate that the disposal of one location that is the only operation in a particular geographical area may not be a discontinued operation.

We believe that basing the reporting of discontinued operations on the principle of a "major strategic shift," with indicators of when a major strategic shift may or may not have occurred, will provide better context for entities to apply the guidance. This approach should reduce instances when the major line of business or major geographical area of operations thresholds, absent that principle, either inappropriately includes a disposal that does not represent a major strategic shift in operations, or excludes a disposal that represents a major strategic shift but is not a major line of business or major geographical area of operations. We believe that incorporating the major line of business and major geographical area of operations thresholds as indicators of a major strategic shift would still promote the board's desired level of convergence with IFRS in this area.

We agree with the board that discontinued operations should include a group of components that are part of a "single coordinated plan" for disposal that represents a major strategic shift in operations. This would better reflect the economics of a phased disposal transaction and address those cases when components that comprise part of a broader disposal plan do not individually satisfy the held for sale criteria in the same reporting period. However, we recommend the board clarify what constitutes a single coordinated plan and how that interacts with the held for sale guidance. In particular, the clarification should provide criteria to evaluate management's authority to approve the plan, the entity's commitment to the plan, including the likelihood of changes to the plan, what constitutes an acceptable period of time during which the plan may be carried out, and the treatment of components that comprise part of a broader disposal plan but do not satisfy the held for sale criteria in the same reporting period. Certain disclosures regarding the status of the plan may also be appropriate.



Question 2: *Do you agree that the continuing involvement criterion in the existing definition should be eliminated? Why or why not?*

We agree that the existence of significant continuing involvement with a disposed component should not, in all cases, preclude presentation as a discontinued operation. In many cases significant continuing involvement with a disposed component constitutes a different economic relationship or operational activity than that which existed before the disposal transaction. However, the nature and extent of continuing involvement, and whether it should or should not preclude a conclusion that a major strategic shift in operations has occurred, should be a factor to consider, rather than an absolute condition, when evaluating whether a disposal represents a major strategic shift in operations.

We support removing the detailed implementation guidance for assessing continuing involvement as we believe management's determination of the effect of continuing involvement should be based on facts and circumstances. Removing this condition as an explicit barrier to reporting discontinued operations, along with removing the need to eliminate the cash flows and operations of a disposed component from an entity's ongoing cash flows and operations will also better align US GAAP with IFRS, which does not contain these provisions.

In addition, as discussed in our cover letter, we believe the existing qualitative disclosures may provide adequate information about significant continuing involvement. When significant continuing involvement exists, we believe disclosures should continue to include qualitative information about the nature of the continuing involvement. We recommend the board provide flexibility to allow an entity to disclose quantitative information that is most relevant about the extent of its significant continuing involvement in the circumstances, such as continuing revenues, services, or guarantees.

Question 3: *Do you agree with the scope of the amendments in this proposed Update? Do you agree that disposals of equity method investments and oil and gas properties that are accounted for using the full-cost method of accounting should be eligible for discontinued operations presentation if they meet the criteria to be reported in discontinued operations?*

We agree with the scope of the proposal and the elimination of the current scope exceptions for discontinued operations.

Question 4: *U.S. GAAP and the amendments in this proposed Update do not specify whether an entity should reclassify the assets and liabilities of a discontinued operation classified as held for sale in the statement of financial position for periods before reclassification. Should an entity be required to reclassify the assets and liabilities of a discontinued operation classified as held for sale in the statement of financial position for periods before reclassification? Why or why not?*

We recommend that an entity not be required to reclassify the assets and liabilities of a discontinued operation for periods presented before the held for sale classification criteria are met. We believe the statement of financial position is intended to capture a point-in-time presentation. Therefore, the most meaningful presentation is to reclassify these assets and liabilities in the initial period when the held for sale criteria are met and in subsequent periods, until sold. In addition, IFRS 5 specifies that an entity should not reclassify amounts classified as held for sale in the statement of financial position for prior periods. Thus, there is an opportunity to improve convergence in this area.



Question 5: *Do you agree with the disclosures required for disposals of individually material components of an entity? If not, which disclosure or disclosures would you eliminate or add and why?*

As discussed in our cover letter, we do not agree with the proposed requirement to identify individually material components of an entity that have been sold or are classified as held for sale but are not presented as discontinued operations and to provide certain balance sheet and income statement disclosures for these disposals. This requirement would result in a more complicated, multi-tiered disclosure approach for disposals whereby (i) disposals of a major line of business or major geographical area of operations would be presented as discontinued operations accompanied by certain disclosures; (ii) individually material disposals would require specific disclosures; and (iii) all other disposals and assets held for sale would continue to require certain disclosures under existing guidance. Further, no disclosures about individually material disposals are required under IFRS 5.

As noted in our cover letter, we encourage the board to solicit additional user input and utilize the concepts being discussed as part of the disclosure framework project to determine appropriate disclosures about disposals by evaluating what type of information is most relevant to users, balanced against the cost of providing that information.

Currently, income statement disclosures for disposal groups that are not discontinued operations are limited to the gain or loss on disposition. We encourage the board to explore with users and preparers additional disclosures that would provide relevant income statement information about all disposals, in the aggregate, that are not presented as discontinued operations. For example, users may find useful when assessing an entity's future cash flows, and preparers may not find overly burdensome to prepare, disclosure of revenues, pre-tax income or loss, and, if there is a noncontrolling interest, the pre-tax income or loss attributable to the parent for all disposals that are included in continuing operations.

ASC 205-20-50-1 currently requires disclosure of the major classes of assets and liabilities of a disposal group. We question whether users would gain meaningful benefit by requiring a separate disclosure of the major classes of assets and liabilities of individually material disposals and a separate reconciliation to the amounts presented as held for sale on the face of the financial statements. We encourage the board to consider, based on user and preparer input, whether a single disclosure and reconciliation of the major classes of assets and liabilities for all disposals that are not presented as discontinued operations would be sufficient.

Question 6: *Do you agree that businesses held for sale on acquisition should be excluded from certain disclosure requirements? Why or why not?*

We agree with the disclosure exceptions for a business that meets the criteria to be classified as held for sale on acquisition. In most cases, a business that is held for sale upon acquisition would not have a significant effect on an entity's results of operations since it would typically be disposed of in a short period of time following its acquisition.



Question 7: *Do you agree with the prospective application transition method? Why or why not?*

We agree that prospective application is appropriate based on cost-benefit considerations. We note that FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, was required to be applied prospectively upon adoption. In paragraph B130 of that standard, the board noted that "...obtaining or developing the information necessary to apply this Statement retroactively could be burdensome for many entities....The Board concluded that prospective application for disposal transactions is the most reasonable and practical transition approach when considered together with the need for consistent transition provisions for disposal transactions and the cost associated with retroactive application." For these same reasons, we believe that prospective application is appropriate for this proposal.

Question 8: *How much time do you think will be needed to prepare for and implement the amendments in this proposed Update?*

While we do not expect a significant amount of time will be required to implement the new discontinued operations thresholds, we believe that it may be time consuming for entities to ensure that the necessary processes and controls are in place to provide certain of the proposed disclosures. Therefore, when deliberating an effective date we encourage the board to provide ample time for entities to prepare for these new disclosure requirements.

Specifically, preparing the proposed disclosure of cash flows by major category for discontinued operations can be challenging, particularly due to the impact of shared services, internal allocations, and intercompany transactions. Although the new guidance would be applied prospectively, we understand that these disclosures would need to be provided for all comparative periods presented. This will require entities to prepare opening and closing balance sheets for discontinued operations for each period presented in the financial statements (three years for SEC registrants and possibly additional periods due to potential implications to the five-year historical data table).

We believe it may be challenging for entities to gather the data and report cash inflows from and outflows to a discontinued operation after a disposal transaction when there is significant continuing involvement, particularly due to the requirement to report this information on a cash basis. In our response to Question 2, we recommended that an entity have flexibility to disclose quantitative information that is most relevant about the extent of its significant continuing involvement in the circumstances.

Question 9: *Do the modified disclosures for nonpublic entities provide the right level of disclosure? If not, how should the proposed Update be modified for nonpublic entities?*

The modified disclosures for nonpublic entities relate to individually material disposals that do not qualify as discontinued operations. As noted in our response to Question 5, we do not agree with the proposed requirements for any entity to disclose information related to individually material components that are disposed or classified as held for sale. However, if the board decides to retain these proposed disclosures, we agree with the modifications for nonpublic entities as set forth in the proposal.