**From:** Gregg Nelson [mailto:gln@us.ibm.com] **Sent:** Thursday, August 29, 2013 9:21 AM

To: Director - FASB

Subject: File Reference No. 2013-230, Proposed Accounting Standards Update (ASU): Presentation of

Financial Statements (Topic 205) – Reporting Discontinued Operations

Importance: High

August 29, 2013

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

(sent via e-mail to director@fasb.org)

Re: File Reference No. 2013-230, Proposed Accounting Standards Update (ASU): Presentation of Financial Statements (Topic 205) – Reporting Discontinued Operations

Dear Mr. Golden:

The International Business Machines Corporation ("IBM" or "the company") appreciates the opportunity to comment on the proposed Accounting Standards Update (ASU): Presentation of Financial Statements (Topic 205) – Reporting Discontinued Operations.

Overall, we are supportive of the proposed ASU which would amend the definition of discontinued operations to include only disposals of major lines of business or separate major geographical areas of operations versus the broader definition applied under current US GAAP. We also believe that the elimination of continuing involvement criterion which precludes discontinued operations treatment under current U.S. GAAP will be an improvement to financial reporting. In addition, we are supportive of the fact that this proposed ASU essentially converges with the requirements of IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations. However, we do have concerns regarding certain disclosure requirements for discontinued operations and for disposals of individually material components of an entity.

To further clarify the scope of the proposed standard, we believe that the guidance should include a framework of key factors for preparers to analyze in order to identify a "separate major line of business or a separate major geographical area of operations." A detailed framework will better assist preparers in identifying whether discontinued operations treatment is appropriate in more complex divestiture scenarios where a conclusion is not readily apparent. In addition, the illustrative examples included in the exposure draft are too simplistic relative to the complexities companies may face when applying the guidance in connection with a divestiture.

For example, in the Consumer Products Manufacturer illustration, the example does not provide detail on the nature of the company's other major product lines. Is the company exiting the

beauty care business completely versus only exiting certain beauty product brands included in the product line subject to the divestiture, while retaining beauty product brands in other consumer product lines not subject to sale? Frequently, a divestiture may involve selling a distinct brand(s) of an operating segment, but that does not necessarily mean the seller is exiting the manufacturing of similar types of products that serve other markets within that operating segment (e.g. selling high end Beauty Care product line A that is a component, but not selling low end Beauty Care product line B that is also a component all within the same operating segment, in the case where Beauty Care product lines A and B cover different aspects of the market).

Therefore, to clarify the scope of the proposed standard, we recommend that the Board:

- 1.) Provide a more detailed framework for analyzing whether a disposal group constitutes a "separate major line of business or a separate major geographical area of operations"; and
- 2.) Provide more robust illustrative examples demonstrating the application of the key principles surrounding whether a disposal group constitutes a "separate major line of business or geographical area of operations".

In addition, we have significant concerns about the Board potentially requiring separate reclassification of assets and liabilities of a discontinued operation in the statement of financial position for periods before designation as "held for sale", as noted in Question 4 of the exposure draft. Similarly, we also have concerns about the FASB's proposed cash flow statement disclosure requirements for discontinued operations noted in paragraph 205-20-50-1A(c), (d) and (e).

Specifically, we believe a requirement to separately classify balance sheet data for historical periods prior to the classification of an operation as "held for sale" will be difficult, costly and time consuming for many globally integrated organizations.

Many organizations maintain centralized processes for billings and collections, payments and other related globally or regionally shared service functions that cover multiple operations, brands and/or segments company-wide. In such a structure, accounts such as accounts receivable, accounts payable, pension liabilities, cash, etc. may not be allocated to individual business units nor captured in IT systems in sufficient detail to prepare timely carve-out balance sheet information required for historical balance sheet disclosures. Consequently, depending on the operating structure and IT systems capabilities of an organization, preparing historical balance sheet data may involve a manually intensive work stream to review individual invoice level detail to prepare separate historical receivables and payables data to the extent such data is even available. This incremental effort is not only likely to be costly and time consuming, but represents a significantly greater disclosure burden than exists today under current GAAP that will likely be of limited benefit to users of the financial statements. The presentation of information in a manner not currently reviewed by the principal decision makers in an entity does not present "management's" point of view, which is critical to the users of financial

information. Even when a prospective buyer requires carve-out financial statements of the operations to be disposed, the periods of carve-out financial data required by the buyer may be less than what is required by the proposed standard and thus may cause a direct incremental cost to preparers without any meaningful benefit.

Furthermore, in order to prepare three years of separate cash flow statement data for a discontinued operation, a company must separately prepare four years of a carve-out balance sheet. In light of the aforementioned challenges to produce separate balance sheet data for discontinued operations in historical periods prior to classification as assets "held for sale", the proposed cash flow statement disclosures for discontinued operations will be significantly burdensome, time consuming and costly to prepare and have audited. Consequently, we believe the costs to prepare such information significantly outweigh any perceived benefits to the financial reporting of a discontinued operation. In our experience, investors have not focused on the balance sheet and cash flow impacts related to recent divestitures that we have executed, highlighting the limited utility of this information given the challenges and cost of preparing these disclosures. Accordingly, we request that the FASB eliminate any historical balance sheet disclosures as well as all cash flow statement disclosure requirements from the proposed discontinued operations standard.

Finally, we have concerns about the proposed new disclosure requirements relative to an "individually material component" of an entity that has been sold or classified as held for sale but have not been accounted for as discontinued operations.

Most notably, we believe the proposed ASU does not provide any guidance as to how to evaluate whether an individual component is "material". We believe that preparers will have to revert back to the broader definition included in existing U.S. GAAP for guidance on how to determine materiality. Further, we are uncertain why financial statement preparers would need to disclose items that did <u>not</u> meet the threshold to be accounted for in accordance with any accounting standard, for example, disclosing financial data about a transaction that did not qualify for discontinued operations.

Accordingly, we believe the additional disclosure requirements for individually material components that do not meet the definition of a discontinued operation are unnecessary. However, if the FASB wishes to retain disclosure requirements for individually material components that do not meet the definition of a discontinued operation, then we request that the FASB clearly define what constitutes an "individually material component" of an entity in greater detail, including the concept of "material."

Thank you for the opportunity to comment on this proposal. If you have any questions or wish to discuss any topic further, please do not hesitate to contact me at 914-766-2008.



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