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August 29, 2013

Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**File Reference No. 2013-230**

**Re: Proposed Accounting Standards Update, *Reporting Discontinued Operations***

Dear Ms. Cospers:

Deloitte & Touche LLP appreciates the opportunity to provide feedback on the FASB's proposed Accounting Standards Update (ASU) *Reporting Discontinued Operations*.

We support the Board's objectives of (1) reducing the number of asset disposals qualifying for discontinued operations and (2) substantially converging the principles related to reporting discontinued operations under U.S. GAAP with those under IFRSs. However, before finalizing this standard, the Board should improve the proposed guidance by clarifying and expanding on certain aspects. The discussion below and appendixes to this letter detail our specific concerns. Appendix A contains responses to the questions posed in the proposed ASU. Appendix B discusses other considerations regarding the proposal.

**Definition of a Discontinued Operation**

In a manner consistent with our January 23, 2009, letter on proposed FASB Staff Position (FSP) No. FAS 144-d, "Amending the Criteria for Reporting a Discontinued Operation," 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." While we agree that the Board's proposed definition of a discontinued operation may indicate a strategic shift, we are concerned that the terms in the definition may be misunderstood and inconsistently applied and thus may not always be applied in a manner consistent with the intended principle. For example, it is difficult to determine what constitutes a major line of business or geographic area (in the proposed definition of a discontinued operation). To ensure that the meaning of these terms is understood, the Board should articulate a clear principle. In addition, the final standard should contain more extensive implementation guidance and examples, especially to address situations in which the assessment may be less straightforward.

**Disclosures**

We believe that the principle for reporting discontinued operations should be consistently applied to financial statement presentation and disclosure in the footnotes to the financial statements. Under the proposal, disposals that do not meet the definition of a discontinued operation for

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financial statement presentation (but meet the “individually material threshold”) would require extensive disclosures in the footnotes to the financial statements. These additional disclosures for “individually material components” of an entity that do not meet the definition of a discontinued operation appear unnecessary.

In light of the FASB’s disclosure framework project, it is unclear whether the disclosures proposed in the guidance provide decision-useful information or instead contribute to the current “disclosure overload.” For example, it is not demonstrably clear whether disclosure requirements proposed for individually material components that do not qualify for discontinued operations will add decision-useful information. However, if the Board maintains the disclosures as proposed, it should clearly articulate the principle underlying what constitutes an “individually material component” at an appropriately high level to ensure that the disclosures do not contribute to this “overload.”

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Deloitte & Touche LLP appreciates the opportunity to comment on the proposed ASU. If you have any questions, please contact Robert Morris at (203) 563-2357.

Yours truly,

Deloitte & Touche LLP  
cc: Robert Uhl

**Appendix A**  
**Deloitte & Touche LLP**  
**Responses to Questions**

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

As discussed in the cover letter, we agree with the Board's direction in defining discontinued operations. However, we believe that the proposed definition is unclear and needs to be improved. We recommend that the Board use a clearly articulated principle to define discontinued operations and support the definition with robust implementation guidance. We agree that a component or group of components that either has been disposed of or meets the criteria to be classified as held for sale is the appropriate disposal group to be considered for discontinued operations treatment.

However, requiring the disposal group to be a major line of business or major geographical area without further clarification may result in different interpretations of this term. The term "major" is not defined, and it is unclear how an entity would determine what constitutes "major." It is also unclear how the term "major" interacts with other terms in the proposal. For example, an entity could determine that the disposition of assets did not constitute a major line of business or geographic region even though the same disposal may be considered "individually material." It is unclear how established materiality concepts interplay with the entity's assessment of "major" and "individually material" in the determination of whether the disposition qualifies for discontinued operations treatment.

The Board should also clearly define what constitutes a "geographical area" or "line of business" and include examples in which this determination is less straightforward than in the proposed ASU's current examples. For instance, it is unclear whether a geographical area would be a county, state, country, or continent, or whether it would be based on the way in which management defines its regions. If these terms are not clarified, entities may be able to interpret them broadly or narrowly in view of a desired outcome. In addition, we are concerned that assessments of such terms would vary among entities.

Finally, the Board should use implementation guidance or examples to clarify the term "single coordinated plan." It is unclear whether the "single coordinated plan" criterion as proposed could involve more than one buyer and whether it would be subject to a time limit (e.g., staged disposals over several years).

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

We generally agree that the continuing involvement criterion should be eliminated from the definition of discontinued operations because such criterion was not effectively "filtering out" insignificant asset dispositions and gave entities opportunities to structure transactions for a specific accounting outcome. In addition, the proposed disclosures would give users sufficient understanding of continued involvement. However, we do not agree with the proposed removal of

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the current implementation guidance on what constitutes continuing involvement because such guidance may help constituents understand when disclosures are warranted.

*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?*

Conceptually, we agree that any investment that meets the proposed definition of discontinued operations (with suggested clarification) should be included within the scope of the proposal. Accordingly, we agree with the removal of the scope exceptions related to equity-method investments and oil and gas properties that are accounted for under the full-cost method.

*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?*

Currently, there is diversity in practice regarding the presentation of assets and liabilities associated with discontinued operations on the balance sheet. For example, certain entities reclassify these assets and liabilities on the prior-year balance sheet to conform prior-year balance sheet presentation to the presentation required on the current-year balance sheet. Alternatively, some entities do not adjust the prior-year balance sheet and present the assets and liabilities associated with the discontinued operation on only the current-year balance sheet, in a manner consistent with both the guidance on assets held for sale and IFRSs. We do not see a significant benefit in narrowing this diversity and requiring all entities to reclassify assets and liabilities of a discontinued operation as held for sale in the statement of financial position for the periods before reclassification.

*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?*

We do not believe that additional disclosures are necessary about disposals of components of an entity that do not constitute a strategic shift in operations. However, if the Board maintains such disclosures, the threshold for when they are required should be further clarified. Currently, it is unclear how an entity would establish whether a component is individually material. While we do not advocate a bright-line threshold (e.g., 10% of assets, revenue, or operating income, or the SEC's definition of a significant subsidiary), we believe that the Board should provide examples and guidance on determining whether an individual component is material for disclosure purposes. Otherwise, the information disclosed may not be decision-useful and could contribute to the current "disclosure overload."

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

We do not object to excluding businesses held for sale on acquisition from certain disclosure requirements because such operations have not been, and will not be, integrated into the entity.

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

We agree with prospective application of the proposed standard. While comparability to future discontinued operations may be compromised, the cost of retrospectively implementing the standard potentially outweighs the benefits to the user. However, the Board should consider requiring disclosures in the year of transition to clarify discontinued operations accounted for under the old and new guidance. This may help alleviate the lack of comparability resulting from both different thresholds for determining whether a disposal constitutes a discontinued operation and variations in financial statement presentation throughout the years presented.

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

We generally believe that minimal effort would be needed to prepare for and implement the proposed amendments, except for the time needed to prepare the additional disclosures (particularly those related to the cash flow statement).

*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?*

As noted in the cover letter, additional disclosures about disposals of components of an entity that do not constitute a strategic shift in operations appear unnecessary. However, if the Board maintains the proposed disclosures, we do not object to the level of disclosure for nonpublic entities.

**Appendix B**  
**Deloitte & Touche LLP**  
**Other Considerations**

**Subsequent Events**

The Board should consider retaining ASC 205-20-55-24. This paragraph in the Codification clarifies discontinued operations presentation related to subsequent events. If the Board decides to remove the paragraph, it should consider addressing such presentation elsewhere in the proposed guidance.

**Disclosures**

***Cash Flow Disclosures***

The proposed disclosure requirements related to cash flows of a discontinued operation represent a significant change. We believe that these incremental disclosures may provide decision-useful information to users; however, the Board should consider feedback from users and preparers to determine whether the benefit of these incremental disclosures outweighs the incremental cost. In addition, the Board should clarify whether an entity's change of presentation under the proposal (i.e., from separately presenting discontinued operations on the face of the statement of financial position to making such disclosures in the notes to the financial statements, or vice versa) would require preferability.

***Disclosures About a Change to a Plan of Sale***

There may be circumstances in which an entity's assets no longer meet held-for-sale criteria and consequently no longer qualify as a discontinued operation (e.g., assets held for sale for greater than 12 months, in accordance with ASC 360-10-45-9(d)). The Board should consider whether the proposed disclosure requirement for a change to a plan of sale (see paragraph 205-20-50-3) should be expanded to include these types of assets.

***Reconciliation of the Major Line Items Constituting Pretax Profit (Loss)***

The proposed guidance includes examples of major line items to be listed in new paragraph 205-20-55-82; one such line item is depreciation and amortization. The Board should consider including this line item in the example in proposed new paragraph 205-20-55-94 to avoid confusion.

**Other Comprehensive Income**

It is unclear from the proposal whether other comprehensive income from a discontinued operation would need to be separately attributed to that operation in the statement of other comprehensive income. The Board should consider clarifying how an entity would apply the proposed standard to other comprehensive income.