



Board Meeting Handout

Investment Companies

March 13, 2013

PURPOSE OF THIS MEETING

1. To address the Board's concerns about transparency into investee funds, the Board decided that an investment company should provide certain disclosures about its investments in another investment company at its August 29, 2012, meeting. At its January 23, 2013, meeting, the Board directed the staff to perform outreach on the operationality of those disclosures to determine the best path forward on the project regarding the disclosure requirements. The Board's tentative disclosure requirements for investments in another investment company are summarized on the investment companies project page of the FASB website.
2. The purposes of this meeting are to discuss significant feedback received on the tentative disclosure requirements and to determine how to proceed on the project given the feedback received.

FEEDBACK RECEIVED

3. Board members and staff members participated in 15 conference calls with preparers and auditors to obtain feedback about the operationality and auditability of the tentative disclosures for an investment in another investment company. To obtain views from the various aspects of the investment company industry, the participants on the calls included the following stakeholder groups:
 - a. Accounting firms—the Big 4 firms and one smaller firm

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- b. Industry groups—representing both the views of funds regulated under the Security and Exchange Commission’s (SEC) Investment Company Act of 1940 (1940 Act) and nonregulated funds
- c. An asset manager—those that manage both funds regulated under the 1940 Act and nonregulated funds (hedge funds, private equity funds, and venture capital funds).

Overall Comments

- 4. Many constituents urged the Board to conduct additional outreach before finalizing the tentative disclosure requirements. Some stated that an Exposure Draft for the disclosures would be the most efficient way to obtain the necessary feedback. Furthermore, some of those constituents raised concerns that deliberations on the disclosures could further delay final guidance on the assessment of investment company status. They urged the Board to discuss issues relevant to the disclosures separate from finalizing the Board’s other decisions.
- 5. Most constituents raised significant operational and audit concerns with the tentative disclosure requirements. Many of those constituents stated that although the information for complying with the disclosures may be available, (a) it may not be received by the reporting investment company in a timely manner or (b) the reporting investment company could be restricted by confidentiality agreements from including the information in its financial statements. Many constituents agreed that information about investee funds would provide useful information, but questioned the threshold and relevance of specific components of the tentative disclosure requirements. Furthermore, constituents stated that the relevance and usefulness of the disclosure requirements also depend on the structure of the reporting investment company and the investee fund.
- 6. Two constituents were supportive of the Board’s tentative disclosure requirements, stating that they are useful and not overly burdensome. Although not as significant as the concerns described in paragraph 5 above, those constituents did raise a few operational issues.

7. A detailed summary of significant feedback received on the operationality of the Board's tentative disclosure requirements for investments in another investment company is posted on the investment companies project page of the FASB website.

ALTERNATIVES FOR CONSIDERATION

8. Based on the feedback received and the staff's analysis, the staff is presenting the following alternatives regarding the next steps on the investment companies project for the Board's consideration:
 - a. **Alternative 1:** Continue deliberations on the tentative disclosure requirements separately from issuing final guidance on the Board's other decisions.
 - b. **Alternative 2:** Do not require additional disclosures about investments in another investment company.

Question for the Board

How does the Board wish to proceed on the investment companies project in regards to disclosures about investments in another investment company?



Board Meeting Handout

Reporting Discontinued Operations

March 13, 2013

PURPOSE OF THE MEETING

1. The purpose of this meeting is to address whether to retain the cash-generating unit concept in the proposed definition of discontinued operation or to replace the cash-generating unit concept with the current definition of *component of an entity* in U.S. GAAP.

Background

2. During redeliberations of FASB Staff Position FAS 144-d, *Amending the Criteria for Reporting a Discontinued Operation*, the Board agreed on a proposed definition of discontinued operation that is very similar to the definition in IFRS. A discontinued operation would be either of the following:
 - a. A disposal (or classification as held for sale) of a *cash-generating unit* or a group of cash-generating units that represent a separate major line of business or major geographic area of operations, or
 - b. A business that, on acquisition, is held for sale.
3. During drafting of the proposed Update, *Presentation of Financial Statements (Topic 205): Reporting Discontinued Operations*, several external reviewers raised concerns about introducing the cash-generating unit concept into the definition of discontinued operation. They believe it will create confusion with other Topics in the Codification, including Topic 360, Property, Plant, and Equipment, and Topic 350, Intangibles-Goodwill and Other, and they recommend retaining the definition

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of a component of an entity in Subtopic 205-20, Presentation of Financial Statements—Discontinued Operations.

4. The cash-generating unit concept is part of the definition of discontinued operations in IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, as well as the basis for allocating goodwill and measuring impairments in IAS 36, *Impairment of Assets*. IFRS 5 and IAS 36 define a cash-generating unit as follows:

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.

Staff Analysis

5. The staff believes that introducing the cash-generating unit concept into the definition of discontinued operation would not be operational because of the differing methodologies in U.S. GAAP (for components of an entity) and in IFRS (for cash-generating units) for (a) allocating goodwill and (b) conducting impairments. IAS 36 includes extensive guidance on how assets, including goodwill, should be grouped into cash-generating units, and how to conduct impairments of cash-generating units. The staff believes it would be necessary to include that guidance in the proposed Update if the cash-generating unit concept is retained. However, this guidance conflicts with how goodwill is allocated and impairments are conducted in U.S. GAAP. The staff thinks it would be too complex to have one system for allocating goodwill and conducting impairments for discontinued operations, and another system for allocating goodwill and conducting impairments for all other assets.
6. The staff believes the following alternatives are available for finalizing a proposed Update for public comment:
 - a. Alternative A: Replace the cash-generating unit concept in the proposed definition of discontinued operation with the existing definition of *component of an entity* in U.S. GAAP, while retaining the rest of the

proposed definition that the Board agreed to during deliberations. For example, a discontinued operation would be a *component of an entity* that is a major business line or major geographic area instead of a *cash-generating unit* that is a major business line or major geographic area.

- b. Alternative B: Retain the cash-generating unit concept from IFRS 5 in the proposed definition of discontinued operation and include a question in the proposed Update that highlights the issue for respondents and asks for feedback on the operational issues relating to allocating goodwill and measuring impairments for cash-generating units.

Staff recommendation

7. The staff recommends using the component of an entity definition from U.S. GAAP in the proposed definition of discontinued operation. While this would create some divergence with the definition in IFRS 5, the staff believes that this change would not affect when a disposal (or classification to held for sale) qualifies for discontinued operations reporting. Rather, the staff believes that the major geographic area and major business line criteria are the primary drivers of which disposals (or classifications to held for sale) would qualify for discontinued operations reporting. Additionally, the staff believes this will avoid the complexity of introducing a new method of grouping assets and liabilities into U.S. GAAP, which already includes different methods for a reporting unit, component of an entity, operating segment, reportable segment, and an asset group.

Question for the Board

1. Does the Board agree with the staff recommendation? If not, does the Board prefer Alternative B, or another alternative?