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The proposed ASU would substantially converge the definition of a discontinued operation under ASC 205-20 with that under IFRS 5 and would also expand disclosure requirements for disposals.

To Be Dis-Continued?

FASB Proposes to Amend Guidance on Discontinued Operations

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Summary

On April 2, 2013, the FASB issued a [proposed ASU](#)¹ that would substantially converge the definition of a discontinued operation under ASC 205-20² with that under IFRS 5.³ The proposal would also expand the disclosure requirements for disposals, including disclosures about individually material components that do not qualify as discontinued operations. In addition to promoting convergence, the proposed guidance is intended to address the concerns that (1) “too many disposals of assets qualify for discontinued operations presentation under the current definition, resulting in financial statements that are not decision useful,” and (2) the “continuing involvement criterion is difficult to apply and does not result in consistent application.”

Comments on the proposal are due by August 30, 2013.

Recognition Criteria

Under the proposed ASU, a discontinued operation is defined as either of the following:

- a. A **component of an entity** or a group of components of an entity that meets both of the following criteria:
 1. The component or group of components has been disposed of or meets all of the criteria in paragraph 360-10-45-9 to be classified as held for sale
 2. The component or group of components is part of a single coordinated plan to dispose of a separate major line of business . . . or a separate major geographical area of operations . . .
- b. A **business** that, on acquisition, meets all of the criteria in paragraph 360-10-45-9 to be classified as held for sale.

Editor’s Note: The FASB uses “component of an entity or a group of components of an entity” in the definition of a discontinued operation, rather than the “cash-generating unit” (CGU) concept in IFRSs. The CGU concept is not defined or used elsewhere in U.S. GAAP, while the component concept is clearly defined in the Codification Master Glossary.

¹ FASB Proposed Accounting Standards Update, *Presentation of Financial Statements: Reporting Discontinued Operations*.

² For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte’s “[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#).”

³ IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.

The proposed guidance would not change the requirements for the presentation of discontinued operations in the financial statements; however, it would require entities to disclose additional information about such operations.

Under ASC 205-20-45-1, a component of an entity should be classified as a discontinued operation if (1) it has been “disposed of or is classified as held for sale,” (2) the “operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction,” and (3) the “entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.” The proposed guidance would eliminate criteria (2) and (3).

Required Disclosures

The proposed guidance would not change the requirements for the presentation of discontinued operations in the financial statements; however, it would require entities to disclose additional information about such operations. In addition, the Board believes that fewer disposals of components of an entity would be reported as discontinued operations under the proposed guidance and that financial statement users therefore would have less information about such disposals. As a result, the proposal expands the disclosure requirements for individually material components that do not meet the proposed definition of a discontinued operation. See the [appendix](#) for information about additional specific disclosure requirements in the proposal.

Editor’s Note: Although the proposed guidance is expected to reduce the number of asset disposals that qualify as discontinued operations, it could potentially result in the recognition of discontinued operations that would not have been recognized under current U.S. GAAP because it (1) expands the scope of the guidance on discontinued operations to include, for example, equity method investments and businesses that meet held-for-sale criteria upon acquisition and (2) removes certain conditions that currently limit the application of the discontinued operation classification.⁴

Continuing Involvement

Although the FASB removed the current continuing-involvement criterion from the proposed definition of a discontinued operation, entities would still be required to disclose such information. The [appendix](#) of this *Heads Up* outlines these required disclosures.

The proposal’s examples of continuing involvement include (1) a supply and distribution agreement, (2) a financial guarantee, (3) an option to repurchase a discontinued operation, and (4) an equity method investment.

Scope of the Discontinued Operations Guidance

The proposed guidance applies to all recognized noncurrent assets and to all disposal groups of an entity. The proposal would remove the current guidance’s scope exceptions for certain assets, such as (1) goodwill, (2) equity method investments, (3) servicing assets, and (4) certain unproved oil and gas properties. The FASB notes that removing these scope exceptions would (1) improve convergence of U.S. GAAP and IFRSs and (2) result in evaluation of all disposals by using the proposed definition to determine whether they would qualify for presentation as discontinued operations.

Other than for entities that dispose of certain equity method investments, whose disposals could now qualify as discontinued operations, the FASB expects the effect of such scope changes to be limited.

Effective Date and Transition

The proposed guidance “would be applied prospectively to all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after the period of adoption, with earlier application permitted.” The Board will determine the effective date after considering the feedback on the ED.

⁴ The proposed guidance would remove from ASC 205-20-45-1 the following conditions for classification as a discontinued operation:

- a. The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction.
- b. The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

Appendix — Additional Disclosure Requirements Under the Proposed Guidance

Disclosures That Are Required When the Discontinued-Operation Criteria Are Met — All Entities

Entities would be required to include in their financial statements the following disclosures about their discontinued operations:

- Pretax profit or loss of the discontinued operations for the periods for which the discontinued operation's results of operations are reported in the statement in which net income is reported.
- Major line items constituting the pretax profit or loss for the periods for which the discontinued operation's results of operations are reported in the statement in which net income is reported.
- Major classes of cash flows (operating, investing, and financing) for the periods for which the discontinued operation's results of operations are reported in the statement in which net income is reported.
- If the discontinued operation includes a noncontrolling interest, the pretax profit or loss attributable to the parent for the periods for which the discontinued operation's results of operations are reported in the statement in which net income is reported.
- The carrying amount of the major classes of assets and liabilities included as part of discontinued operations classified as held for sale.
- For the initial period in which the disposal group is classified as held for sale, a reconciliation of total assets and total liabilities of the discontinued operation that are classified as held for sale in the notes to the financial statements to total assets and total liabilities of the disposal group that are classified as held for sale and presented separately on the face of the statement of financial position.⁵
- For the periods for which the results of operations of the discontinued operations are reported, a reconciliation of the pretax profit or loss for disposals and major line items constituting the profit or loss presented in the notes to the financial statements to the after-tax profit or loss from discontinued operations presented on the face of the statement in which net income is reported.⁶

Disclosures That Are Required When the Discontinued-Operation Criteria Are Not Met — Public Entities

In the notes to the financial statements, public entities would be required to disclose information about individually material components that are disposed of or held for sale and that do not qualify as discontinued operations. Such disclosures would include:

- Pretax profit or loss of the individually material component of an entity 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 in which net income is reported.
- Reconciliation of the major classes of assets and liabilities of an individually material component of an entity 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 for the initial period in which the disposal group is classified as held for sale.
- If the individually material component of an entity 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 in which net income is reported.

Disclosures That Are Required When the Discontinued-Operation Criteria Are Not Met — Nonpublic Entities

In their notes to the financial statements, nonpublic entities would be required to disclose information about individually material components that are disposed of or held for sale and that do not qualify as discontinued operations. Such disclosures would include:

- Pretax profit or loss of the individually material component of an entity for the period in which it is sold or is classified as held for sale.
- If the component 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.

⁵ For purposes of the reconciliation, amounts that are not considered major may be aggregated and presented as one line item within the reconciliation.

⁶ See footnote 5.

Disclosures That Are Required When There Has Been Continuing Involvement — All Entities

Entities that have continuing involvement with a discontinued operation after the disposal date would be required to disclose the following information in their financial statements:⁷

- “A description of the nature of the activities that give rise to the continuing involvement.”
- “The period of time during which the involvement is expected to continue.”
- “The amount of any cash inflows (outflows) from (to) the discontinued operation after the disposal transaction.”
- “The amount presented in continuing operations after the disposal transaction that before the disposal transaction was eliminated in consolidated financial statements as intraentity transactions.”
- “For a discontinued operation in which an entity retains an equity method investment after the disposal, information that enables users of financial statements to compare the financial performance of the entity from period to period assuming that the entity held the same equity method investment in all periods presented in the statement where net income is reported.” The disclosure would include all of the following: (1) “pretax income of the discontinued operation in which the entity retains an equity method investment” for each period presented, (2) the “entity’s ownership interest in the discontinued operation before [and after] the disposal,” and (3) the “income or loss in the period(s) after the disposal transaction from the entity’s ongoing equity method investment in the discontinued operation and the line item in the statement where net income is reported that includes the income or loss.”

⁷ These disclosures are required until the results of operations of the discontinued operations in which the entity retains a continuing involvement in is no longer presented separately within the statement where net income is reported.

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