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**International  
Accounting Standards  
Board**

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.  
These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

### **INFORMATION FOR OBSERVERS**

**Board Meeting:** 17 April 2007, London

**Project:** Agenda decision – Discontinued operations

**Subject:** Potential acceleration of timing of project (Agenda paper 11)

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### **PURPOSE OF THE MEETING**

1. At the January 24, 2007 FASB Board meeting, the FASB agreed to a revised definition of a discontinued operation. During the deliberations, the FASB asked the staff to research the amount of the staff's and the Board's time that would be necessary to carve this issue out as a separate project from the Financial Statement Presentation project. At the January 25, 2007 IASB Board meeting, the IASB agreed to converge the definition of a discontinued operation. The FASB staff informed the IASB that the FASB may spin this off as a separate project. The IASB indicated that their first preference was not to separate the project because of the IASB's limited staff resources. The IASB asked the FASB to let them know whether or not the FASB decides to spin this into a separate project. This memorandum provides information for the FASB and the IASB to consider in determining whether to spin this into a separate project and the staff's recommendation on that issue.

## **SCOPE OF THE PROJECT**

### **Conclusions reached to date**

2. The FASB and the IASB tentatively agreed to the following definition of *discontinued operations*:
  - a. A component of an entity that has been (or will be) disposed of and meets the definition of an operating segment under Statement 131 and IFRS 8 would be reported as a discontinued operation on the face of the financial statements.
  - b. For all components of an entity that have been (or will be) disposed of, including those reported as a discontinued operation, the guidance would require additional financial information to be presented in the notes to the financial statements for all periods presented.

### **Remaining Issues and Open Items**

3. The following are the remaining issues that need to be addressed by the FASB and the IASB regardless of whether either the FASB or the IASB undertakes a separate project.
  - a. Draft the amendments to Statement 144 and IFRS 5 that are needed as a result of the decisions reached to date.
  - b. Determine the type of information to be required in the notes to the financial statements for all components that have been or will be disposed of.
  - c. Determine the treatment of income taxes in supplemental disclosures in item (b).
  - d. Determine the form of the document (only if spun off).
  - e. Determine the effective date and transition of the guidance (only if spun off).
  - f. Determine the length of the comment period (only if spun off).

## Projected Timeline

4. Here is the tentative timeline for issuing guidance under a FASB-only project and as a joint FASB-IASB project (based on the FASB staff's understanding of the average time it takes for drafting, exposure, and redeliberations). It is unlikely that a joint project could be completed in 2007. The joint timeline presumes that the IASB can identify the staff resources and complete the necessary drafting.

|                                     | <b>FASB-only Project</b>        | <b>Joint Project</b>                              |
|-------------------------------------|---------------------------------|---|
| Agenda Decision                     | April                           | April   |
| Remaining Issues                    | April / May                     | May   |
| Drafting / Preballot / Ballot       | May (1 Month)                   | June & July (2 Months)                            |
| Exposure Period                     | June & July (60 days)           | August, September, October, & November (120 days) |
| Comment Letter Analysis             | August & September (2 months)   | December & January (2 months)                     |
| Redeliberations                     | September (1 month)             | February (1 month)                                |
| Final Drafting / Preballot / Ballot | October (1 month)               | March & April (2 months)                          |
| Effective Date                      | No earlier than January 1, 2008 | No earlier than January 1, 2009                   |

## **Issue and Alternatives**

*Issue: Should the guidance on reporting a discontinued operation be separated from the Financial Statement Presentation project?*

*Alternative A – Both the FASB and the IASB should separate the issue from the Financial Statement Presentation project.*

5. The Boards received six unsolicited comment letters from real estate associations in the United States, United Kingdom, Canada, Australia, and Europe and a letter from the Securities Industry and Financial Markets Association. Those letters are included as appendixes to this memorandum. All respondents support the conclusions reached to date on the definition of a discontinued operation and the use of incremental footnotes to reporting other disposal activities of the entity. All of the organizations requested that this issue be separated from the Financial Statement Presentation project and that the timing of issuing the guidance be accelerated. They believe that the current discontinued operations reporting requirement is overly burdensome to preparers.
6. Since the FASB and the IASB already concluded on the major decisions, the staff does not believe there would be a significant amount of staff or Board resources necessary to issue separate guidance. The only remaining issues to be addressed, which are not judged to be significant, are detailed in paragraph 3. Based on discussions with the IASB staff, this would not need to go through the IASB's Board of Trustees because the project was previously approved as part of a broader project. Therefore, the staff believes this could be completed in a relatively short timeframe.
7. When the IASB deliberated IFRS 5, they elected not to converge the definition of a discontinued operation. Paragraph 71 of IFRS 5 discusses that decision.

The Board therefore decided that it would retain the requirement in IAS 35 that a discontinued operation should be a major line of business or geographical area of operations, noting that this will include operations that would have been excluded from the US definition before SFAS 144, which was based on a reporting segment. However, the Board regards this as an interim measure and intends to work with the FASB to arrive at a converged definition within a relatively short time. [Emphasis added.]

The IASB intended to arrive at a converged definition within a relatively short timeframe. IFRS 5 was published in 2004. The Financial Statement Presentation project will not be completed and effective until January 1, 2011 (at the earliest). Separating this issue from the Financial Statement Presentation project would allow guidance to be issued in a relatively short time, which is more consistent with the IASB's intention to arrive at a converged definition within a relatively short timeframe.

*Alternative B – The FASB should issue guidance on reporting a discontinued operation separately from the Financial Statement Presentation project on an expedited basis. The IASB should continue to issue the guidance as part of the Financial Statement Presentation project.*

8. The majority of the discussions with interested parties indicate that the issues with the current definition of a discontinued operation are principally with preparers and users for entities that prepare financial statements in accordance with U.S. GAAP. If the Boards decide that they should spin off this issue as a joint project, the final guidance could not be issued until 2008 because of the IASB's due process procedures and resource constraints. Since this is largely perceived to be a problem with entities applying U.S. GAAP and since, conceptually, an operating segment under Statement 131 and "a separate major line of business" are conceptually similar, it may be more appropriate for only the FASB to take on the project.
9. The FASB has adequate staff resources to address the issue and the staff does not believe this will take a significant amount of the FASB's time. The IASB currently does not have much flexibility in the staffing capacity to address this issue and adding this issue could strain the IASB's internal staff resources.
10. The argument against this approach is that it may effectively lock the IASB into a position if the FASB addresses the project by itself first. It may become difficult for the FASB to change its position if the preparers and users reporting under U.S. GAAP become accustomed to this guidance.

*Alternative C – The guidance on reporting a discontinued operation should remain part of the Financial Statement Presentation project.*

11. The concern over discontinued operations reporting has existed since before Statement 144 was issued. The FASB was asked on several occasions to deal with this issue and each time declined to address the issue. Since the FASB and the IASB are changing the manner in which a discontinued operation is reported on the face of the financial statements, it seems more appropriate to deal with the definition at the same time rather than create a separate project for the issue.
12. The Financial Statement Presentation project is a comprehensive project to improve financial reporting. Removing one aspect of that project and addressing it separately could create a bad precedent that it is acceptable to accelerate individual pieces of the project when a particular constituent group is concerned about an issue rather than address the project on a more comprehensive basis.
13. Issuing guidance separately from the Financial Statement Presentation project is an inefficient use of staff resources compared to addressing the issue in the Financial Statement Presentation project. While the FASB staff has the resources, some believe that those resources could be put to better use.

#### **QUESTION FOR THE BOARD**

14. Does either the FASB or the IASB want to remove this issue from the Financial Statement Presentation project and separately issue guidance on the definition of a discontinued operation on an expedited basis?

#### **STAFF RECOMMENDATION**

15. The staff supports Alternative A. The staff believes that the revised definition and disclosure requirements represent an improvement to financial reporting that would address a current reporting issue. Constituents indicated their support for the tentative conclusions reached to date and support the FASB and the IASB addressing the issue separately from the Financial Statement Presentation project. The FASB has the staff resources to address the issue and can assist the IASB staff in presenting the issue to the IASB Board.