



Project	Discontinued operations
Topic	Alternatives for a definition of a discontinued operation

Introduction

1. At its July Board meeting, the IASB discussed the presentation and definition of discontinued operations. The IASB tentatively decided:
 - (a) That IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, should continue to require an entity to present discontinued operations on the face of the statement of comprehensive income;
 - (b) To define a discontinued operation as:
 - (i) A reportable segment disposed of or classified as held for sale; or
 - (ii) A business that meets the criteria to be classified as held for sale on acquisition;
 - (c) That re-exposure of these proposals is unnecessary; and
 - (d) That the staff should investigate further the disclosure requirements in U.S. GAAP for components of an entity that have been disposed of or classified as held for sale.

This paper has been prepared by the technical staff of the FASB and the IASCF for discussion at a public meeting of the FASB or the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the FASB or the IASB.

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2. At its August 26, 2009 Board meeting, the FASB discussed the presentation and definition of discontinued operations. Based on feedback from users, the FASB decided that discontinued operations should continue to be presented on the face of the statement of comprehensive income.
3. However, the FASB did not decide on a final definition for discontinued operations. Instead, the FASB requested that the staff perform further research on various alternative definitions of a discontinued operation, including a significant operating segment or component of an entity, both with a significance criterion in the definition. Board members noted that the IASB's decision to focus on a reportable segment would result in presenting very few, if any, discontinued operations on the face of the statement of comprehensive income, which contradicts with users' needs to have discontinued operations presented on the face of the statement of comprehensive income.
4. The FASB agreed that any new alternative definition developed by the staff would be discussed at the October 2009 Joint Meeting with the IASB.

Objectives of this Paper

5. The objectives of this paper are:
 - a. To discuss alternative definitions for discontinued operations
 - b. To discuss alternatives for disclosures about discontinued operations.
6. The staff's understanding is that both Boards continue to support that a *business* (as defined in FASB Accounting Standards Codification Topic 805, *Business Combinations*, (formerly FASB Statement No. 141 (revised 2008), *Business*

Combinations) or IFRS 3, *Business Combinations*, (as revised in 2009)) that meets the criteria to be classified as held for sale on acquisition should continue to be reported as discontinued operations. Therefore, the focus of this paper is on all other types of disposals (or classifications to held for sale) that would be reported as discontinued operations.

Definition of Discontinued Operations

7. The staff thinks that the discussion regarding the definition for discontinued operations can be broken down into the following three parts:
 - (a) Part 1 – What the starting point for the definition of a discontinued operation should be
 - (b) Part 2 – Whether the definition of a discontinued operation should include a *significance* criterion and if so what kind of significance it should refer to
 - (c) Part 3 – Whether the definition of a discontinued operation should include a *continuing involvement* criterion.

Part 1: Starting point for the definition

8. The first part relates to the starting point for the definition of discontinued operations. The staff considered the following alternatives:
 - (a) An *operating segment*, as defined in Topic 280 (formerly FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*) and IFRS 8, *Operating Segments*;

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- (b) A *component of an entity*, as defined in Topic 205 (formerly FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*) and IFRS 5;
- (c) A hybrid of (a) and (b), that is, a *component of an entity* that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); or
- (d) A *business*, as defined in Topic 805, *Business Combinations*, (formerly FASB Statement No. 141 (revised 2008), *Business Combinations*) or IFRS 3, *Business Combinations* (as revised in 2009).

Operating segment

9. Both IFRS and U.S. GAAP define an operating segment as a component of an entity:
 - (a) That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same enterprise),
 - (b) Whose operating results are regularly reviewed by the enterprise's *chief operating decision maker* to make decisions about resources to be allocated to the segment and assess its performance, and
 - (c) For which discrete financial information is available.
10. Both IFRS and U.S. GAAP provide further guidance on the term *chief operating decision maker* and *segment manager*. For example, paragraph 50-5 of Subtopic 280-10 states:

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The term *chief operating decision maker* identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the segments of an enterprise. Often the chief operating decision maker of an enterprise is its chief executive officer or chief operating officer, but it may be a group consisting of, for example, the enterprise's president, executive vice presidents, and others.

11. There are several advantages to using the operating segment concept in the definition for discontinued operations. This concept is familiar to preparers and auditors as they have used (or will be using) it in applying the segment disclosures required by Topic 280 or IFRS 8.
12. One of the criticisms of the current definition of discontinued operations in U.S. GAAP, which is based on a *component of an entity*, is that too many disposals qualify for discontinued operations treatment. The operating segment concept would limit the types of disposals that would qualify for discontinued operations treatment to those that meet the criteria noted above in paragraph 8. Certain disposals that would qualify as discontinued operations under current U.S. GAAP would not qualify under an operating segment concept, such as disposals of asset groups. Therefore, under U.S. GAAP, the staff thinks that using this concept would generally result in fewer disposals qualifying as discontinued operations.
13. There are several disadvantages to using the *operating segment* concept in the definition of a discontinued operation. This concept may reduce comparability between entities. Some entities may have many operating segments because they track financial information and manage operations at a detailed and low

level. Other entities may have fewer operating segments because they review financial information at a higher level and have fewer operating segment managers. While the two entities could be competitors or operating in the same industry, disposals at each entity may result in one reporting more discontinued operations than the other.

14. Opponents of the *operating segment* concept have also noted that it leaves too much discretion to management. Because operating segments are based on how an entity is structured and managed, using an *operating segment* concept would subject discontinued operations reporting to too much management judgment. For example, if an entity that manufactures razors disposes of its razors operation in the United States, and this operation accounts for 20 percent of the entity's revenues and is part of a larger North American operating segment (it is not an operating segment itself), then this disposal would not qualify as a discontinued operation. Users that the staff spoke with noted that a disposal that is of this significance should qualify for discontinued operations treatment. Users were not concerned about whether or not it would be classified by management as an operating segment.
15. Additionally, when an entity is structured as a matrix form of organization and the chief operating decision maker regularly reviews the operating results of both sets of components (for example, by product line and by geographical area), Topic 280 requires that the entity present operating segments based on products and services (IFRS 8 requires that the entity present operating segments by reference to the core principle). This is inconsistent with the views of users who stated that disposals that have a significant impact on the future cash flows of an

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entity should be considered discontinued operations. Their primary concern is with the size of the disposed segment and not whether it is based on a geography or product line.

16. As noted in Agenda Paper 6 for the July 2009 IASB Board meeting and FASB Memorandum #7, if the operating segment concept is to be used, the staff thinks the following clarifications need to be made for the purposes of presenting discontinued operations:

- a. When an entity is structured as a matrix form of organization, the disposal of a component from a set that is not used for reporting operating segments should also be considered a disposal of an operating segment. For example, if an entity structured as a matrix form of organization (based on product line and geographical area) presents segment disclosures based on product line but disposes of a component of an entity related to a geographical area, for the purposes of determining discontinued operations, that disposal should also be considered a disposal of an operating segment.
- b. An operating segment is considered to be disposed of or classified as held for sale if substantially all of the assets and liabilities within that segment are disposed of or classified as held for sale. For example, if an entity disposes of an operating segment except for a few immaterial assets and liabilities that are part of that segment, such disposal should be considered a disposal of an operating segment.
- c. The disposal of assets and liabilities that are related to the disposal of an operating segment (but those assets and liabilities are not part of that

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segment) should be included in a discontinued operation if such disposal is part of a single coordinated plan.

Component of an entity

17. Both IFRS and U.S. GAAP define a *component of an entity* as “operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.”
18. The component of an entity concept is similar to the operating segment concept in that it requires that the component of an entity have operations and cash flows that can be distinguished operationally and for financial reporting purposes, while an operating segment must have discrete financial information.
19. The primary differences from the operating segment concept are:
 - a. It does not require that an entity engage in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); and
 - b. It does not include a requirement that the results of the component of an entity be regularly reviewed by the entity’s chief operating decision maker.
20. An advantage of the component of an entity concept is that it is not based on a management approach. Therefore, it will be more comparable between entities. Additionally, entities that are structured as a matrix form of organization would be able to classify disposals of operations in a major geographic area as

discontinued operations without further guidance as suggested in paragraph 1(a) of this paper.

21. A disadvantage of the component of an entity approach is that it starts the definition at a lower level than an operating segment. Some entities may have many components that do not qualify as operating segments because they are not reviewed by a chief operating decision maker, whereas most or all operating segments would qualify as components of an entity. Therefore, under the component of an entity approach the significance criterion discussed in the next section will be more important to limiting the number of disposals that qualify for discontinued operations treatment.

A hybrid approach

22. A hybrid approach would require that the *component of an entity* would need to engage in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) in order to qualify as a discontinued operation. Accordingly, the difference between this hybrid approach and the operating segment approach is whether the results of the component of an entity are regularly reviewed by the entity's chief operating decision maker.
23. The Boards may decide to replace the definition of *component of an entity* with this hybrid concept. If that is the case, the revised definition of a *component of an entity* could be worded as follows:

A component of an entity engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) and comprises operations and cash flows that can be clearly

distinguished, operationally and for financial reporting purposes, from the rest of the entity.

Business

24. Both Boards define a *business* as “an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.”
25. The *business* concept would be similar to the hybrid approach but has the following differences:
 - a. The definition of *business* does not require that an entity have discrete financial information available; and
 - b. Its scope is possibly broader than the hybrid approach because it does not require that a business incur revenue or expenses.
26. Using the *business* concept would align the definition of discontinued operations with the other part of the definition (that is, a *business* that meets the criteria to be classified as held for sale on acquisition).

Staff analysis and recommendation

27. The majority view of the staff is to use a hybrid of the operating segment approach and the component of an entity concept as the starting point for the definition of discontinued operations. The starting point could be described as “a *component of an entity* that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity).” Alternatively, as

discussed in paragraph 23 of this paper, the Boards may decide to amend the definition of *component of an entity*.

28. The hybrid approach eliminates the requirement that a chief operating decision maker regularly review the financial information of the part of the entity that is disposed. This will address the needs of users who were concerned about disposals that would not qualify as discontinued operations for this reason even if the disposed part encompasses a significant portion of an entity's revenues or profits. Additionally, the hybrid approach would not include disposals of asset groups or other portions of a business that do not generate revenues and incur expenses in the discontinued operations definition.
29. The minority view of the staff is that the *business* concept should be used as the starting point for the definition of discontinued operations. The concept focuses on a set of activities but is not based on a management approach. Moreover, the concept would align the definition of discontinued operations with the other part of the definition.
30. As noted in paragraph 1(b) of this paper, the IASB tentatively decided that discontinued operations should be defined as a *reportable segment* disposed of or classified as held for sale. The IASB reached this conclusion as a counterproposal to the staff recommendation to define discontinued operations as a *significant* operating segment disposed of or classified as held for sale. As reportable segments are a subset of operating segments, the disadvantages in using the operating segment also apply when using reportable segments.

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1. Which concept should be used as the starting point for the discontinued operations definition?
2. If the Boards prefer to use the hybrid approach as the starting point, should the definition of *component of an entity* be replaced with the hybrid concept?
3. If the Boards prefer to use the *operating segment* concept as the starting point, do they agree that the following clarifications should be made?
 - (a) When an entity is structured as a matrix form of organization, the disposal of an operating segment that is not considered a reporting segment for the disclosures in Topic 280 or IFRS 8 should also be considered a disposal of an operating segment.
 - (b) An operating segment is considered to be disposed of or classified as held for sale if substantially all of the assets and liabilities within that segment are disposed of or classified as held for sale.
 - (c) The disposal of assets and liabilities related to the disposal of an operating segment (but those assets and liabilities are not part of that segment) should be included in a discontinued operation if such disposal is part of a single coordinated plan.

Part 2 – Significance criterion

31. One of the key messages the staff has heard from users was that there needs to be a *significance* criterion in reporting discontinued operations. Most of these users stated that the significance criterion should be qualitative in nature.
32. At its August 26, 2009 Board meeting, the FASB also discussed several ways to include a significance criterion in the definition of a discontinued operation. The staff explored some of the ideas that were mentioned, and considered the following alternatives:
 - (a) Including a *significant change in financial trends* concept in the definition,
 - (b) Including a *significant strategic shift* concept in the definition, and
 - (c) Including both alternatives (a) and (b) in the definition.

Alternative A – Significant change in financial trends

33. The staff considered how a significant change in financial trends concept could be included in the definition of a discontinued operation and what would be the indicators of a significant change in financial trends.
34. The staff concluded that, in order to say that there is a significant change in financial trends, a discontinued operation should significantly affect one or more major line items in the balance sheet or income statement. For example, if an entity disposed of a major product line that accounted for 30 percent of the entity's revenues, the entity's revenues after the disposal should be significantly lower than in the prior year, assuming all else equal. Additionally, the entity's assets, liabilities, and net income could be significantly lower as well. The staff

thinks this concept could be included in the definition of a discontinued operation as follows¹:

A discontinued operation is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) whose disposal or classification to held for sale causes a significant change in the ongoing financial trends of the entity.

35. In addition to including the above concept in the definition, the staff considered including further guidance in the definition that would provide an indication that a significant change in ongoing financial trends has occurred. The staff considered several indicators, including significant changes in:

- (a) Revenues;
- (b) Cost of sales;
- (c) Selling, general, and administrative expenses; or
- (d) Net income.

36. The staff notes that while a disposal (or classification to held for sale) may have a significant impact on one major line item in one of the entity's financial statements, it does not necessarily mean that the disposal (or classification to held for sale) will have a proportionate or a significant impact on other major line items. For example, an entity may dispose of a subsidiary that generates a

¹ This proposed wording is based on the majority view of the staff regarding the starting point of the definition. The minority view of the staff would replace the phrase "a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)" with "business."

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lot of revenue, but is only slightly profitable in relation to the entity's total profits. Therefore, the entity's revenue in the year following the disposal will be significantly impacted while net income will not. Therefore, the staff thinks an explanation accompanying the definition could be worded as follows:

A significant change in the ongoing financial trends of an entity should result in a significant change in one or more of the following after the disposal or classification to held for sale:

- a. Revenues;
 - b. Cost of sales;
 - c. Selling, general, and administrative expenses; or
 - d. Net income.
37. The major line items listed above are not exhaustive and judgement will be required in determining whether the disposal (or classification to held for sale) of a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) meets the definition of a discontinued operation.

Alternative B – Significant strategic shift

38. The staff also considered how a significant strategic shift might fit in the definition of a discontinued operation, and what would be the indicators of a significant strategic shift in the entity's operations.
39. One of the issues with the current definition of a discontinued operation in U.S. GAAP is that some types of entities end up reporting too many disposals as discontinued operations. For example, real estate investment trusts that are in the business of buying and selling properties may report disposals of properties

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as discontinued operations. Both preparers and investors in the real estate investment trust industry have complained about this accounting treatment.

40. The staff thinks the only way to resolve this issue is to include a *significant strategic shift* concept in the discontinued operation definition. If an entity's business strategy is to buy commercial property, fix it up, and sell the property at a later date, the disposal of the property should not result in discontinued operations reporting because this is the entity's ongoing business strategy.
41. The *significant strategic shift* concept could be included in the definition of a discontinued operation as follows²:

A discontinued operation is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) whose disposal or classification to held for sale represents a significant strategic shift in the entity's operations.

42. In addition to including the above concept in the definition, the staff considered including further guidance in the definition that would provide an indication that a significant strategic shift in an entity's operations has occurred. This would ensure that minor changes in business strategy do not qualify for discontinued operations presentation. The staff considered several indicators, including:

- (a) Disposal of a major product line
- (b) Exiting a major geographic area

² See footnote 1.

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- (c) Disposal of an entire subsidiary or business
 - (d) Elimination of a particular customer base.
43. The indicators listed above are not exhaustive and judgement will be required in determining whether the disposal (or classification to held for sale) of a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) meets the definition of a discontinued operation.

Alternative C: Significant change in financial trends and strategic shift

44. The staff also considered combining the *significant change in financial trends* concept and the *significant strategic shift* concept. A definition that includes both concepts could be worded as follows³:

A discontinued operation is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) whose disposal or classification to held for sale represents a significant strategic shift in the entity's operations and results in a significant change in the ongoing financial trends in the entity.

45. Under this alternative, qualitative indicators for both concepts would accompany the definition. The following is one example:

The following factors are indicators of a significant strategic shift in an entity's operations:

- a. Disposal of a major product line;

³ See footnote 1.

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- b. Exiting a geographical area;
- c. Disposal of an entire business; and
- d. Elimination of a particular customer base.

A significant change in the ongoing financial trends of an entity should result in a significant change in one or more of the following after the disposal or classification to held for sale:

- a. Revenues;
- b. Cost of sales;
- c. Selling, general, and administrative expenses; or
- d. Net income.

Judgment is required in determining whether a disposal or classification to held for sale of a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) meets the definition of a discontinued operation. The above factors are not exhaustive, and additional factors may be indicators of a significant strategic shift in an entity's operations that causes a significant change in the ongoing financial trends of the entity.

Staff analysis and recommendation

46. The staff recommends including both the *significant change in financial trends* concept and the *significant strategic shift* concept in the definition of a discontinued operation. The staff concluded that a discontinued operation must be associated with a significant strategic shift in the entity's operations or business model. Otherwise, disposals of components of an entity in certain types of entities or business models that routinely engage in the buying and selling of components or operating segments as part of their business strategy will result in routinely reporting discontinued operations. Additionally, the staff

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concluded that if a significant change in the ongoing financial trends resulting from the disposal does not occur, such disposal does not warrant presentation on the face of the statement of comprehensive income.

At its April 2009 Board meeting, the IASB rejected the idea of including a strategic shift concept in the definition of discontinued operations. The staff's understanding is that the major reason for rejecting the idea was that the term *strategic shift* was undefined and that an entity could interpret the term to mean anything. As noted above, the staff thinks the strategic shift concept is necessary to alleviate the concerns raised by entities that routinely engage in buying and selling components. Moreover, the indicators would help an entity determine whether a disposal (or classification to held for sale) of its component represents a strategic shift in its operations.

Question for the Board

4. Do the Boards prefer Alternative A, B, or C for inclusion in the definition of a discontinued operation?

Part 3 – Continuing involvement criterion

47. The Exposure Draft, *Discontinued Operations: Proposed Amendments to IFRS 5*, and the proposed FASB Staff Position FAS144-d, *Amending the Criteria for Reporting Discontinued Operations* (hereinafter, “the EDs”) issued in September 2008 did not include a continuing involvement criterion in the definition of discontinued operations.

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48. That is, the EDs proposed eliminating paragraphs 45-1 and 45-2 of Subtopic 205-20. These paragraphs require that a component of an entity that has been classified as a discontinued operation to meet the following conditions:
- (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.
49. Several respondents suggested that these criteria should be included in the definition of a discontinued operation, and that the detailed interpretive guidance in Section 55 of Subtopic 205-20 (formerly EITF Issue No. 03-13, “Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations,”) should also be included. At a minimum, those respondents recommended including the following disclosures from paragraphs 50-4 and 50-6 of Subtopic 205-20 (formerly paragraph 17 of EITF 03-13):

The following information should be disclosed in the notes to the financial statements for each discontinued operation that generates continuing cash flows: (a) the nature of the activities that give rise to continuing cash flows, (b) the period of time continuing cash flows are expected to be generated, and (c) the principal factors used to conclude that the expected continuing cash flows are not direct cash flows of the disposed component.

For each discontinued operation in which the ongoing entity will engage in a “continuation of activities” with the disposed component after its disposal and for which the amounts presented in continuing operations after the disposal transaction include a continuation of revenues and expenses that were intercompany transactions

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(eliminated in consolidated financial statements) before the disposal transaction, intercompany amounts before the disposal transaction should be disclosed for all periods presented. The types of continuing involvement, if any, that the entity will have after the disposal transaction should be disclosed. That information should be disclosed in the period in which operations are initially classified as discontinued.

50. The IASB decided not to include the continuing involvement criterion when it originally issued IFRS 5. Paragraph BC70 of IFRS 5 states:

The Board also noted that the FASB Emerging Issues Task Force (EITF) is considering practical problems that have arisen in implementing the criteria for discontinued operations in SFAS 144. Specifically, the EITF is considering (a) the cash flows of the component that should be considered in the determination of whether cash flows have been or will be eliminated from the ongoing operations of the entity and (b) the types of continuing involvement that constitute significant continuing involvement in the operations of the disposal component. As a result of these practical problems, the Board further concluded that it was not appropriate to change the definition of a discontinued operation in a way that was likely to cause the same problems in practice as have arisen under SFAS 144.

51. The definition of discontinued operations tentatively agreed by the IASB at its July 2009 Board meeting (see paragraph 1(b) of this paper) does not include a continuing involvement criterion.

Staff analysis and recommendation

52. The FASB staff is concerned with certain types of continuing cash flows or continuing involvement where an entity retains significant ongoing risks or rewards related to the component, but still classifies the component as a discontinued operation. For example:

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- (a) The ongoing entity retains an interest in the disposed component sufficient to enable the ongoing entity to exert significant influence in the operating or financial policies (or both) of the disposed component, or
 - (b) Options to repurchase significant portions of the disposed component that are not at fair value, or are bargain purchase options.
53. The FASB staff spoke with representatives of two of the Big 4 accounting firms to gather more information about potential issues with not including continuing involvement criteria in the final definition. One auditor noted that although they recommended including a principles-based definition based on a strategic shift concept in their comment letter, they suggested retaining the continuing involvement criteria if the Board chooses to use a definition based on an operating or reporting segment. Both auditors concluded that the continuing involvement guidance would be necessary in order to consistently apply the operating or reporting segment concept in the definition of a discontinued operation. They concluded that two companies might reach different conclusions on whether an operating or reporting segment has been discontinued when there is some ongoing continuing cash flows or continuing involvement with the disposed segment. Additionally, one of the auditors questioned whether the objective of separately reporting an operating or reporting segment as discontinued has been met when an entity has significant continuing involvement with that segment.

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5. Should the definition of discontinued operations include a continuing involvement criterion?
6. If not, do the Boards think the staff should explore alternatives for disclosures regarding continuing involvement?

Disclosures

54. The EDs had proposed disclosures for the following groups of items:
 - a. Discontinued operations (proposed as operating segments disposed of or classified as held for sale);
 - b. Components of an entity disposed of or classified as held for sale that do not meet the definition of discontinued operations; and
 - c. Assets (or disposal groups) held for sale.
55. The Boards currently require disclosures for only (a) and (c), although they define discontinued operations differently. Many preparers, auditors, and national standard-setters noted that the proposed disclosures were onerous. They said that, if the same disclosures are required for both items that do and do not meet the definition of discontinued operations, the Boards have defined discontinued operations incorrectly or are requiring too much disclosure.
56. At its July 2009 Board meeting, the IASB directed the staff to perform further research on disclosures because the disclosures proposed in the EDs may be too onerous. The IASB was particularly concerned about the level of disclosures required for disposals (or classifications to held for sale) of components of an

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entity that do not meet the definition of a discontinued operation and are not presented separately on the face of the income statement.

Staff analysis and recommendation

57. The current definition of a *component of an entity* requires that operations and cash flows be clearly distinguishable, for financial reporting purposes, from the rest of the entity. Accordingly, if we ignore the costs of producing the information, entities should be able to provide information about any disposal or classification to held for sale of its components, regardless of whether they meet the definition of a discontinued operation.
58. The staff thinks disclosures should not be required for components of an entity that have been disposed of or classified as held for sale but do not meet the definition of a discontinued operation. This is consistent with current guidance of both Boards.
59. As discussed earlier in this paper, the staff is recommending a definition of discontinued operations that is likely to include more items than what would have been included based on the definition proposed in the EDs and, therefore, the number of disposed components that do not meet the definition of a discontinued operation should be smaller than that intended in the EDs.

Question for the Boards

7. Do the Boards agree that disclosures should not be required for components of an entity that have been disposed of or classified

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as held for sale but do not meet the definition of a discontinued operation?