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Project	<b>Financial Statement Presentation</b>
Topic	<b>Presentation of Discontinued Operations</b>

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## Introduction

1. This paper discusses the IASB's and the FASB's [collectively, the boards] preliminary views on classification of information within the financial statements. Specifically, this paper examines the discussion paper proposals for the presentation of **discontinued operations** in the light of respondents' comments on those proposals.
2. The staff also considered the tentative decisions reached at the IASB's July 2009 and FASB's August 2009 meetings as part of the boards' joint project to develop a converged definition of a discontinued operation. At both meetings, the boards tentatively decided to retain the requirement for presenting discontinued operations in the statement of comprehensive income (SCI) in a separate section.

## Staff recommendations

3. The staff recommend that the boards retain the proposal in the discussion paper that an entity present information about its discontinued operations in a separate section in each of its primary financial statements (except the statement of changes in equity).
4. In addition, the staff recommend that the boards not prescribe the level of detail that an entity should present about its discontinued operations and where that information should be presented (that is, in the financial statements or in the notes to those financial statements).

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This paper has been prepared by the technical staff of the FAF 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.

Comments made in relation to the application of U.S. GAAP or IFRSs do not purport to be acceptable or unacceptable application of U.S. GAAP or IFRSs.

The tentative decisions made by the FASB or the IASB at public meetings are reported in FASB *Action Alert* or in IASB *Update*. Official pronouncements of the FASB or the IASB are published only after each board has completed its full due process, including appropriate public consultation and formal voting procedures.

## **Financial statement format as described in the discussion paper**

### ***Discontinued operations***

5. The discussion paper indicates that discontinued operations should be segregated from the continuing business and financing activities of an entity (paragraph 2.20). Consequently, all assets and liabilities related to a discontinued operation (as that term is defined in IFRS and US GAAP) should be presented in a separate section in the statement of financial position (SFP). Additionally, all changes in assets and liabilities of a discontinued operation should be presented in the discontinued operations section of the SCI and the statement of cash flows (SCF) (paragraph 2.37).
6. As noted in paragraph 2.71 of the discussion paper, users of financial statements say that they use information about the results of an entity's operating activities in assessing the amount, timing and uncertainty of future cash flows. Those assessments are likely to treat information about the results of discontinued operations, such as the related earnings and cash flows, differently from the results of continuing operations because they have different implications for future cash flows.

### **Summary of respondent feedback from comment letters**

7. Question 4 in the discussion paper asked respondents whether presenting discontinued operations in a separate section provides decision-useful information. The discussion paper also asked if, alternatively, an entity should present information about its discontinued operations in the relevant categories (operating, investing, financing assets, and financing liabilities).
8. Almost all of the responses to question 4 agree with the boards that separately presenting discontinued operations provides decision-useful information because it allows a user of those financial statements to better assess an entity's ongoing operations. Overall, respondents think that a presentation of discontinued operations in a separate section will allow users to better predict the future cash flows of an entity. Therefore, respondents almost unanimously support a separate discontinued operations section in the financial statements.

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9. Only a small minority of respondents are in favour of presenting information about discontinued operations **in** the relevant categories (operating, investing, financing asset, and financing liabilities) in the financial statements. Some of those respondents suggested that the category information could be presented in the notes to financial statements. Other respondents think that information about discontinued operations should be presented **only** in the notes to financial statements.
10. Most respondents think that the presentation of discontinued operations information in more than one category or section would add unnecessary complexity for users of financial statements, which may hinder analysis. Some respondents state that such a presentation would provide meaningless information because a discontinued operation has no predictive value.

### **Developments on discontinued operations subsequent to the discussion paper**

11. The criteria for identifying a discontinued operation differ in IFRSs and US GAAP. In a joint project, the boards are jointly considering a new, common definition of a *discontinued operation*. In September 2008, the IASB and the FASB each published an exposure document including the proposed new definition and related disclosures.

### ***IASB deliberations***

12. In July 2009 the IASB discussed respondents' comments on the exposure draft *Discontinued Operations*. The FASB discussed those comments in August 2009. The staff responsible for that project conducted extensive outreach with both IFRS and US GAAP users of financial statements. Those users showed strong support for the presentation of discontinued operations in the primary financial statements in a section separate from continuing operations. Those users also requested additional disaggregation of discontinued operations information in the notes to financial statements. However, all US GAAP and the majority of IFRS financial statement users contacted as part of the staff outreach efforts do not support presenting discontinued operations as an operating segment in the segment disclosures.

13. Both boards agreed with the staff recommendation that an entity should continue to present discontinued operations in the SCI.

### Staff analysis and recommendation

14. In developing the presentation model proposed in the discussion paper, the boards considered allocating discontinued operations information to the sections and categories in the financial statements instead of presenting the information in a separate section. The boards decided that an entity should separately present discontinued operation information because, as stated in paragraph 6 of this paper, the results of discontinued operations have different implications for future cash flows.
15. The comment letters agree with the boards' preliminary view on this issue and respondents did not raise any issues that would cause the staff to recommend a change from the discussion paper. Consequently, the staff recommend that the boards retain the discussion paper proposal to present discontinued operations as a separate section in each primary financial statement (other than the statement of changes in equity).

#### Question 1

The staff recommend that the exposure draft retain the discussion paper proposal to present discontinued operations in a separate section in each financial statement.

**Do the boards agree with that recommendation?**

### Level of detail about discontinued operations

16. The discussion paper was silent as to how much information (line items) about discontinued operations should be presented in the financial statements (rather than in the notes). In its discussions **prior** to drafting the discussion paper, the boards agreed to the following:
  - (a) The assets and liabilities of a disposal group classified as held-for-sale would be presented in the statement of financial position:
    - (i) [FASB view] as single amount (net assets or net liabilities)

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- (ii) [IASB view] on a gross basis (assets separate from liabilities).
  - (b) An entity should combine the revenue, expense, gain, and loss of a discontinued operation, and any gain or loss from disposal or from measurement to fair value and present that amount as a single line in the statement of comprehensive income.
  - (c) An entity should combine the cash flows from its discontinued operations and present that amount as a single line in the statement of cash flows.
17. In June 2008 (during the drafting process), the boards agreed that the discussion paper should not include any specific requirements for disaggregating (or aggregating) within the discontinued operations section. In making that recommendation, the staff noted that being silent on presentation will allow an entity to apply the overall disaggregation objective and include additional line items in its discontinued operations section as appropriate in order to explain the components of its financial results.
18. At a future meeting, the boards will discuss what guidance should be in the exposure draft on whether and when an entity should present disaggregated information in the notes to financial statements. The staff are of the view that being silent on the amount of detail presented in the financial statements about discontinued operations is appropriate. That is, an entity should decide (using the guidelines to be provided) how much information about its discontinued operations should be presented in the financial statements and in the notes to those financial statements.

### Question 2

The staff recommend that the boards not prescribe the level of detail that an entity should present about its discontinued operations and where that information should be presented (that is, in the financial statements or in the notes to those financial statements).

**Do the boards agree with that recommendation?**