The Association of
Accountants and
Financial Professionals
in Business

May 21, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2013-230

Dear Ms. Cosper:

The Financial Reporting Committee ("FRC") of the Institute of Management Accountants ("IMA") appreciates the opportunity to provide its views to the Financial Accounting Standards Board ("FASB" or "Board") on the Proposed Accounting Standards Update *Presentation of Financial Statements (Topic 205): Reporting Discontinued Operations*.

FRC is the financial reporting technical committee of the IMA. It is comprised of representatives from some of the largest companies and accounting firms in the world, along with valuation experts, accounting consultants, academics and analysts. FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Additional information about the IMA Financial Reporting Committee can be found at www.imanet.org.

Although we support the major premise of the proposed accounting update to modify the definition of what is a discontinued operation, we have a number of specific concerns about the proposal that we believe should be modified before a final accounting update is issued. We agree with the Board's conclusions that the current definition of discontinued operations is too broad. This has resulted in displaying too many disposals as a discontinued operation, requiring additional effort and costs on the part of preparers and auditors without providing relevant information to users. We believe financial statements should only report discontinued operations when the divested operations represent a significant portion of the entity and a significant strategic shift in operations. We also believe that this update will result in more convergence with IFRS.

We agree with the definition of a component of an entity and when that component would be considered a discontinued operation. We believe the component of an entity, as defined, would generally be consistent with how businesses are capturing financial data and should not require significant additional effort to comply with the proposed update.

We do not support the requirement to provide cash flow information for discontinued operations. Although we believe some historical financial information about discontinued operations would exist primarily for the income statement, we don't believe that many companies would have cash flow data. Generally cash flow information is more difficult to gather and many companies do not allocate all, or even a majority, of their balance sheet items to reporting units. They manage such things as working capital, debt and financing items, employee benefit obligations, etc. centrally. It would not be helpful to allocate working capital or other items to a discontinued operation to have more "complete" cash flow reporting, if this is not how a business manages its cash flows or holds management accountable. The proposed requirement would also involve significant cost and effort for companies to generate the data, particularly if it is not generated for ongoing business segments.

Further, we do not support the expansion of the scope of this topic to include equity method investments. We believe the primary benefit of reporting discontinued operations is to present a clearer before and after picture of the income statement. Because equity method investments are reported on a single line in both the income statement and balance sheet, the effects of a disposal on the financial statements are relatively easy to identify, and do not present the same comparability issues that exist for consolidated operations. When material, companies must present summarized financial information about equity method investments in their footnotes. Thus, users already have access to comparable before and after financial data. Additionally, many companies use joint ventures to explore alternative business models or markets. As such, these activities are more likely to be in a separate line of business or geographic area, but would not be part of a company's core operations. Accordingly, we believe expanding the scope could significantly increase the frequency of reporting discontinued operations and we do not foresee significant user benefit from this requirement.

We do not agree with the proposed update's required disclosures for disposals of individually material components of an entity that do not meet the definition of a discontinued operation. The work to "carve out" the historical income statement information for the divested component would be substantially the same as if the transaction was accounted for as a discontinued operation. As such, this does not achieve the Board's stated objective of reducing the cost and complexity for preparers. We also believe management is already providing, when meaningful, the necessary data to users to understand the impact of significant divestitures on its underlying trends, usually in the MD&A section of public filings.

Finally, we do not support the differences in the required disclosures for public and private companies. The primary differences in the proposed update relate to cash flow information and disposals of individually material components of an entity, which we object to for all types of companies for the reasons specified above. From a broader perspective, we believe disclosures should be limited to those that are decision-relevant for users, which are generally consistent between public and private entities. We do not believe the proposed update has provided any compelling rationale for why the disclosures that are not required for private companies are relevant for public companies. Accordingly, we believe the disclosures should be aligned or the Board should better explain why the disclosures should be different.

Please see the attached appendix for our responses to the questions for respondents. If you have any questions regarding our comments, please contact me.

Sincerely,

NJSchroeder

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Appendix

Question 1: Do you agree with the proposed definition of discontinued operations? Is it understandable and operable?

> *Yes. We agree with the proposed definition. We believe that in many cases it would be similar to that of a reporting unit and consistent with how an entity gathers information for testing goodwill. However, because the definition is not identical, it will give companies flexibility as to whether this grouping is the most appropriate for reporting a discontinued operation. We also agree that this definition will reduce differences between US GAAP and IFRS.*

Question 2: Do you agree that the continuing involvement criterion in the existing definition should be eliminated? Why or why not?

> *Yes. We believe that the existing requirement that there be no continuing involvement caused unneeded complexity. Entities often have some level of economic activity with a discontinued operation, e.g., transition services, sales and purchases, contingent consideration. The requirement to analyze whether such transactions represent continuing involvement added complexity unrelated to whether the entity is no longer engaged in a set of business activities.*

Question 3: Do you agree with the scope of the amendments in this proposed Update? Do you agree that disposals of equity method investments and oil and gas properties that are accounted for using the full-cost method of accounting should be eligible for discontinued operations presentation if they meet the criteria to be reported in discontinued operations?

> *No. We believe that the current exclusions should still apply. Equity method investments are included on a single line item of the income statement and balance sheet. Therefore, it would be relatively easy for users to understand how a set of financial statements would be affected by a disposal. The proposed update does not appear to be solving any comparability issues, particularly because reported revenues and operating expenses would be unaffected. Additionally, joint ventures are often a vehicle for entities to participate in businesses outside of their core activities. This means it is more likely to be in a line of business or geographic area that is different from the rest of the entity. Classifying such a disposal as a discontinued operation means companies will likely need to spend additional effort either reporting items that do not represent a major change to their core business or justifying why the provisions of this topic do not apply to that transaction.*

Question 4: U.S. GAAP and the amendments in this proposed Update do not specify whether an entity should reclassify the assets and liabilities of a discontinued operation classified as held for sale in the statement of financial position for periods before reclassification. Should an entity be required to reclassify the assets and liabilities of a discontinued operation classified as held for sale in the statement of financial position for periods before reclassification? Why or why not?

The determination of whether assets and liabilities should be classified as held for sale is separate from the determination as to whether a transaction is a discontinued operation. If a discontinued operation did not qualify as held for sale in earlier periods we see limited value in showing those amounts separately in the current financial statements. We believe restated historical balance sheets should not be required.

Question 5: Do you agree with the disclosures required for disposals of individually material components of an entity? If not, which disclosure or disclosures would you eliminate or add and why?

If a divested business is not a discontinued operation we believe fewer disclosures are necessary. Because such a business was not in a major line of business or geographic area it is less likely that an entity was capturing the required financial data. For example, pre-tax income may not be available or the most relevant metric. Instead sales or other measures may better capture the impact to the financial statements. Under the proposed update, the work to identify the historical financial information would be substantially the same as if the transaction was accounted for as a discontinued operation. As such, this does not achieve the Board's stated objective of reducing cost and complexity for preparers. We also believe that public companies are generally already providing relevant and meaningful information through MD&A or other means. We disagree with mandating specific disclosures in the footnotes.

Question 6: Do you agree that businesses held for sale on acquisition should be excluded from certain disclosure requirements? Why or why not?

Yes. Because businesses held for sale on acquisition are not likely to have significantly affected historically reported results, we see limited need to disclose additional information.

Question 7: Do you agree with the prospective application transition method? Why or why not?

Yes. Retrospective transition would not add meaningful disclosures but would require additional effort. Because the update would result in fewer disposals being reported as discontinued operations, it would result in reclassifying discontinued operations into continuing operations. We believe re-aggregating historical information that had been previously been reported separately, for operations that are no longer owned, would not be relevant to users.

Question 8: How much time do you think will be needed to prepare for and implement the amendments in this proposed Update?

The answer depends on whether prospective transition is adopted. Because the update pertains to specific transactions and not ongoing activities, there would be minimal impact to accounting processes and systems. Accordingly, prospective transition could be adopted almost immediately upon release of a final update. However, if retrospective treatment was required, it would require significant effort and additional time would be required.

Question 9: Do the modified disclosures for nonpublic entities provide the right level of disclosure? If not, how should the proposed Update be modified for nonpublic entities?

> *Yes. In fact, we believe the more limited disclosure requirements for private companies should also apply to public entities because, in our view, they adequately meet the requirements of users. As stated in the body of our letter, in particular, we believe that the requirements to report cash flows for discontinued operations will be very difficult for many preparers to obtain and would not provide a commensurate benefit to users. We do not believe the Board has adequately explained why the additional proposed disclosures for public entities are necessary. We are concerned that these incremental disclosures add to the current problem of disclosure overload and the Board needs to minimize disclosures where appropriate.*