

NAREIT Financial Standards Alert



National Association of Real Estate Investment Trusts®
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FASB and IASB Propose Converged Definition of Discontinued Operations

Both the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) recently issued proposed amendments to standards that set forth the accounting and reporting for discontinued operations. The amendments reflect a converged definition of a discontinued operation that, for many of NAREIT's member companies, would result in reporting fewer dispositions as discontinued operations. The FASB proposes the following definition of a discontinued operation in FASB Staff Position (FSP) Financial Accounting Standard 144-d (to read the FSP, click [here](#)):

A discontinued operation is a component of an entity that is:

- a. An *operating segment* (as that term is defined in FASB Statement 131, *Disclosures about Segments of an Enterprise and Related Information*) and either has been disposed of or is classified as held for sale; or
- b. A *business* (as that term is defined in FASB Statement No. 141 [revised 2007], *Business Combinations*) that meets the criteria to be classified as held for sale on acquisition.

In addition to redefining a discontinued operation, the FSP sets forth disclosure requirements for a component of an entity that either has been disposed of or is classified as held for sale – whether or not reported as a discontinued operation. The FSP would be effective for fiscal years beginning after

December 15, 2009 and interim periods within those fiscal years, with early application permitted. In addition, the modified reporting would be applied retrospectively. Comments on the proposed accounting are not due until January 23, 2009 and the final FSP is not scheduled to be issued until the first quarter of 2009.

NAREIT and its global partners intend to comment on the proposed amendments. If you would like to participate in NAREIT's consideration of the Boards' proposed modifications and in the development of comment letters, please contact George Yungmann at gyungmann@nareit.com.



Background

In August 2001, the FASB issued FASB Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144). NAREIT immediately recognized that the reporting required by this standard would result in reporting nearly every sale of an investment property as a discontinued operation. In a December 2001 letter to the FASB (to access the letter, click [here](#)), NAREIT requested that the FASB modify the definition of a discontinued operation to avoid the issues created by regularly reporting dispositions of investment properties as discontinued operations. The Board refused to modify the standard at that time.

NAREIT representatives met with the FASB in 2006 to further discuss the complexities and

potential misrepresentations of a company's business being caused by regularly reporting discontinued operations. In its communication to the Board, NAREIT suggested that one solution to this issue would be to converge with the definition of a discontinued operation included in international standards.

In 2007, the FASB agreed to revise the definition of a discontinued operation in FAS 144 and, subsequently, the IASB agreed to converge with the FASB's revised definition. As a result of the converged definition proposed in the FSP, the reporting of investment property sales would more closely reflect the strategic business of NAREIT member companies.

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