

income, limited however to the amount of any loss otherwise recognizable for the disposal, with any remainder accounted for when realized. Any changes in the original estimate shall be accounted for in accordance with *Issue Paper No. 3—Accounting Changes*.

7. The results of a reporting entity's discontinued operations shall be reported consistently with the entity's reporting of continuing operations (i.e. no separate line item presentation in the balance sheet or statement of operations aggregating current and future losses from the measurement date).

8. Additionally, the notes to the financial statements for the period encompassing the measurement date and the year subsequent shall contain the following:

- a. The identity of the segment of business that has been or will be discontinued,
- b. The expected disposal date, if known (see definition in paragraph 13 below),
- c. The expected manner of disposal,
- d. A description of the remaining assets and liabilities of the segment at the balance sheet date and the estimated payout pattern,
- e. The amounts related to the discontinued operations and the effect on the statement of operations including the balance sheet and income statement line items which have been affected.

9. If material revisions are made to the estimates of the cost to dispose of a segment in years subsequent to the disclosure required in paragraph 8 above, the nature and the effect of the revisions to the estimates shall be disclosed for the period in which the revision was made including the effect on income or loss from operations and the effect on the carrying amount of the remaining assets and liabilities of the segment at the balance sheet date.

Extraordinary Items

10. Extraordinary items, as defined in paragraph 13 below, shall be reported consistently with the reporting entity's reporting of continuing operations (i.e. no separate line item presentation in the balance sheet or statement of operations). Such items shall not be charged directly to surplus unless specifically addressed elsewhere within the codification.

11. The nature of an extraordinary event or transaction and the principle items entering into the determination of an extraordinary gain or loss shall be disclosed in the notes to the financial statements. This disclosure shall include the line items which have been affected by the estimate of the extraordinary item.

12. Material events or transactions that are either unusual or occur infrequently, but not both, are not considered extraordinary items. However, such material events or transactions shall be disclosed in the notes to the financial statements.

Definitions

13. For purposes of statutory accounting, the following definitions shall apply:

“Discontinued operations” shall be defined as the operations of a segment of a business that has been sold, abandoned, spun off, or otherwise disposed of or, although still operating, is the subject of a formal plan for disposal.

A “segment” of a business shall be defined as a component of an entity, likely in the form of a subsidiary, whose activities represent a separate major type of business or class of customer. The assets, results of operations, and activities of a segment must be clearly distinguished, physically and operationally and for financial reporting purposes, from the other assets, results of operations, and activities of the entity. The fact that the results of operations of the segment being sold or abandoned cannot be separately identified strongly suggests that the transaction should not be

classified as the disposal of a segment of the business. The disposal of a segment of a business should be distinguished from other disposals of assets incident to the evolution of the entity's business, such as the disposal of a line of business or the shifting of marketing activities from one location to another.

"Measurement date" shall be defined as the date on which management having authority to approve the action commits itself to a formal plan to dispose of a segment of the business, whether by sale or abandonment. The plan, at a minimum, should include identification of the major assets to be disposed of, the expected method of disposal, the period expected to be required for completion of the disposal, an active program to find a buyer if disposal is to be by sale, the estimated results of operations of the segment from the measurement date to the disposal date (defined below), and the estimated proceeds or salvage to be realized by disposal.

"Disposal date" shall be defined as the date of closing the sale if the disposal is by sale or the date that operations cease if the disposal is by abandonment.

"Extraordinary items" shall be defined as those events or transactions which meet both of the following criteria:

- (a) Unusual nature - the underlying event or transaction possesses a high degree of abnormality and is clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the reporting entity, taking into account the environment in which the reporting entity operates.
- (b) Infrequency of occurrence - the underlying event or transaction would not reasonably be expected to recur in the foreseeable future, taking into account the environment 90006 Tc 0.039 Tw s

presentation of the loss. Some entities record extraordinary items as a charge directly to surplus; other entities do not separate extraordinary items from the results of continuing operations.

17. The conclusion above requires a loss associated with discontinued operations to be recorded at the measurement date. This is consistent with the conservatism concept in the Statement of Concepts. *Issue Paper No. 5—Definition of Liabilities, Loss Contingencies and Impairments of Assets* requires an estimated loss from a loss contingency to be recorded when (a) it is probable that a loss will be incurred and (b) the amount of the loss can be reasonably estimated.

Drafting Notes/Comments

None

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

18. Statutory guidance does not address the accounting treatment for the disposal of a segment or extraordinary items.

Generally Accepted Accounting Principles

19. *Accounting Principles Board Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* (APB 30), discusses discontinued operations and extraordinary items in the following excerpts:

Changes

Accounting

segment of a business

Definition of Measurement and Disposal Dates

Determination of Gain or Loss on Disposal of a Segment of a Business.

RELEVANT LITERATURE**Statutory Accounting**

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy
- *Issue Paper No. 3—Accounting Changes*
- *Issue Paper No. 5—Definition of Liabilities, Loss Contingencies and Impairments of Assets*
- *Issue Paper No. 20—Gain Contingencies*

Generally Accepted Accounting Principles

- *Accounting Principles Board Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*
- *Accounting Interpretation of Accounting Principles Board Opinion 30, Reporting the Results of Operations*
- *FASB Emerging Issues Task Force No. 85-36, Discontinued Operations with Expected Gain and Interim Operating Losses*
- *FASB Emerging Issues Task Force No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*
- *FASB Emerging Issues Task Force No. 95-18, Accounting and Reporting for a Discontinued Business Segment When the Measurement Date Occurs after the Balance Sheet Date but before the Issuance of Financial Statements*

State Regulations

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