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**International
Accounting Standards
Board**

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: **May 2007, London**

Project: ***IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations - Disclosures (Agenda Paper 11(vii))***

Background

1. The IFRIC received a request to clarify whether the disclosure requirements of IFRS 7 *Financial Instruments: Disclosures* and IAS 19 *Employee Benefits* would apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations under IFRS 5.

Issue

2. The staff note that:
 - The classification and presentation requirements of IFRS 5 are applicable to all non-current assets. Exclusions from the scope of IFRS 5 relate only to the measurement requirements (see IFRS 5 paragraph 2 and BC 13).
 - IAS 16 *Property, Plant and Equipment*, IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets* should not be applied to non-current assets classified as held for sale in accordance with IFRS 5 as these Standards exclude such non-current assets from their scope.

- Other Standards do not specifically exclude non-current assets classified as held for sale in accordance with IFRS 5 from their disclosure requirements. In contrast, IAS 33 *Earnings per Share* (paragraph 68) specifically requires disclosure of amounts per share for discontinued operations.
3. The issue is whether the disclosure requirements of IFRSs, in absence of specific exclusion of non-current assets classified as held for sale from their disclosure requirements, should apply to non-current assets (and disposal groups which may include liabilities) classified as held for sale in accordance with IFRS 5.

Staff analysis

4. Paragraphs 30 to 42 of IFRS 5 require an entity to present and disclose information “that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups)”. BC 17 of IFRS 5 states that “the Board concluded that providing information about assets and groups of assets and liabilities to be disposed of is of benefit to users of financial statements. Such information should assist users in assessing the timing, amount and uncertainty of future cash flows”.

View A

5. Some staff are of the view that IFRS 5 specifies all the disclosures required in respect of non-current assets classified as held for sale and/or discontinued operations, together with the requirement of IAS 33 paragraph 68 to disclose the amount per share for discontinued operations (view A). Therefore, the staff holding view A believe that the disclosure requirements of Standards other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations in accordance with IFRS 5, unless these Standards specifically require disclosures for such assets. (e.g. IAS 33 *Earnings per Share* paragraph 68).
6. In addition, as IAS 1 *Presentation of Financial Statements* applies to all general purpose financial statements prepared and presented in accordance with IFRS, its general requirements on fair presentation and materiality would also apply to non-current assets classified as held for sale or discontinued operations in accordance with IFRS 5. On materiality for instance, IAS 1 states in paragraph

30 that "An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes" and in paragraph 11 that "Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor". This should normally prevent omission of material items in connection with non-current assets (or disposal groups) classified as held for sale or discontinued operations under IFRS 5.

View B

7. Other staff note that, when developing IFRS 5, the Board amended some IFRSs (IAS 16, IAS 36, IAS 38) but not all IFRSs to exclude non-current assets classified as held for sale from their scope. Those staff are of the view that disclosures required by IFRSs, that have not excluded non-current assets classified as held for sale and/or discontinued operations from their scope, continue to apply to non-current assets classified as held for sale and/or discontinued operations (view B).
8. To assess whether IFRS 5 was understood as view A or view B, the staff reviewed the financial statements of some companies from different countries in Europe. For some of them, the disclosures about assets held for sale or discontinued operations go beyond the requirements of IFRSs including, for instance, additional information about income taxes. The staff did not find examples where the disclosures of IAS 19 were provided for assets held for sale or discontinued operations.
9. As the scope of IFRS 5 deals with classification, presentation and measurement, the staff supporting view A suggest that it would be of the benefit to users to add a paragraph for disclosures in the scope of IFRS 5, such as:

The disclosure requirements of Standards other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations in accordance with IFRS 5, unless these Standards specifically require disclosures for such assets.

Which view do you support- view A or view B? If you support view A, do you believe an amendment to IFRS 5 is needed?

Staff recommendation

10. The staff doubt there is significant diversity in practice in this area and, therefore, recommend the IFRIC not to take the issue onto the agenda.

Questions to the IFRIC: Do you agree with the staff recommendation not to add this item to the IFRIC agenda and the wording for such decision set out below reflecting view A?

[wording for such decision omitted from observer notes]