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International Accounting Standards Board

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These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting:	**Tuesday 22 January 2008, London**
Project:	**Annual improvements process**
Subject:	**Disclosures required for non-current assets (or disposal groups) classified as held for sale or discontinued operations (Agenda paper 9B)**

Background

1. At the October 2007 Board meeting, the staff presented a paper on disclosures required for non-current assets (or disposal groups) classified as held for sale or discontinued operations.

2. At that meeting, the Board supported the staff recommendation (view A, see appendix to this paper) and confirmed that:

   - IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations;
   - disclosures in other IFRSs do not apply to such assets (or disposal groups) unless that other IFRS specifically requires a disclosure in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; and

- other disclosures about such assets (or disposal groups) may be necessary to comply with the general requirements of IAS 1 *Presentation of Financial Statements*.

3. However, the Board expressed concern about the implication of that view: any information relating to the assets and liabilities within a disposal group would be pulled out from the general notes and disclosed in a single note. The Board asked the staff to analyse whether it would be burdensome to segregate the information related to the assets held for sale and whether the information produced would be meaningful in particular for the assets and liabilities within the disposal group whose measurement attribute has not been altered by IFRS 5 (eg pension and tax liabilities).

4. In this paper, the staff address this concern and recommend that the Board should clarify the disclosure requirements of IFRS 5 through the Annual Improvement Process.

Staff analysis

Is such segregation of information burdensome?

5. The staff consulted some audit firms and one preparer to assess whether the segregation of information that results from view A is burdensome for preparers of financial statements. When non-current assets (or disposal groups) meet the classification criteria as held for sale or discontinued operations in accordance with IFRS 5, they are –by definition– separately identifiable from the other assets and liabilities because the entity is committed to a sale plan of these assets or group of assets and liabilities. The entity must know which assets and liabilities are going to go with the disposal group or be retained. What in fact is burdensome is identifying and gathering all the information for the purpose of the planned sale itself (eg in the context of a spin-off or demerger).

6. In some circumstances, the staff acknowledge that, when a disposal group contains a pension liability for instance, it may not be easy to pull out information relating to the disposal group from the total pension liability, especially when the disposal group is not an existing subsidiary or group of subsidiaries. However, an entity that is committed to a sale plan should be able to

determine which employees are part of the disposal group and determine the related pension liability.

Is the information produced useful?

7. One could argue that the measurement attribute of some assets and liabilities within a disposal group may not have been altered by IFRS 5 (eg assets and liabilities arising from pension plans, deferred tax positions and financial instruments). For these assets and liabilities that continue to be measured in accordance with applicable IFRSs, disclosing information separately from the other notes may not be meaningful. For instance, what information is conveyed about a pension liability that relates to the employees of the disposal group and is still measured in accordance with IAS 19 in the absence of its measurement disclosures? Should a reference be made to the general notes or some measurement information disclosed?

8. Take the following example: an entity is committed to a plan to sell a subsidiary that includes 100 employees. Assume that the pension liability relating to the subsidiary is lower than the defined benefit obligation due to unrecognised actuarial losses. In accordance with IFRS 5, the disposal group (the subsidiary) as a whole is measured at the lower of its carrying amount and fair value less costs to sell. Assume that, as a result, the carrying amount of the disposal group is impaired and a loss is recognised on classification as held for sale.

9. Paragraph 30 of IFRS 5 requires 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)". Paragraph 41 of IFRS 5 requires separate disclosures of an impairment loss recognised for a disposal group. In the example above, the staff's view is that there is no need for further information than that required by IFRS 5 because unrecognised actuarial losses explain the loss on classification as held for sale and the adjustment to fair value provides relevant information about the disposal group.

10. Assume now that the subsidiary to be disposed of is a separate major line of business of the entity and therefore constitutes a discontinued operation in accordance with IFRS 5.

11. The financial effects of the classification as a discontinued operation remain the same as the classification as held for sale. However, the sale of the subsidiary will imply a curtailment. Paragraph 111 of IAS 19 states that ‘a curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.’ Through an illustrative example, paragraph 115 of IAS 19 states that ‘An entity discontinues an operating segment and employees of the discontinued segment will earn no further benefits. This is a curtailment without a settlement.’ Paragraph 120A of IAS 19 requires disclosing the effect of any curtailment on the defined benefit obligation and profit or loss. Therefore, when the entity disposes of its subsidiary, it should disclose the effects of the curtailment in the note relating to IAS 19 with a cross-reference in the note relating to discontinued operations. This is because this information is material at the entity level and also enables users of the financial statements to evaluate the financial effects of the discontinued operation.

Staff recommendation

12. The staff thinks that the key issue addressed to the IFRIC in the first place is whether the disclosure requirements of standards other than IFRS 5, in the absence of specific exclusion, would apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations. The staff also think that a clarification in this area would be helpful.

13. The proposed amendment (see drafting) reflects the view that the Board supported at the October 2007 meeting and clarifies in BC4[1] that, when a disposal group includes assets and liabilities that are not within the scope of the measurement requirements of IFRS 5, disclosures about measurement of these assets and liabilities are normally made in the other notes to the financial statements and do not need to be repeated unless they enable users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).

14. Does the Board support the staff recommendation? If yes, does the Board agree with the drafting changes suggested?

[1] In the drafting section of this paper, BC4 has been added. BC4 of the previous paper becomes BC5.

Drafting

15. The staff recommends adding the following paragraph to IFRS 5:

Scope

…

5A This Standard specifies disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other Standards do not apply to such assets (or disposal groups) unless that other Standard specifically requires a disclosure in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures about such assets (or disposal groups) may be necessary to comply with the general requirements of IAS 1 *Presentation of Financial Statements*.

Basis for Conclusions on Proposed Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Scope

BC1 The Board identified a need to clarify the disclosure requirements for non-current assets (or disposal groups) classified as held for sale or discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Some believe that IFRS 5 and other standards that specifically refer to non-current assets (or disposal groups) classified as held for sale or discontinued operations set out all the disclosures required in respect of those assets or operations. Other believe that all disclosures required by IFRSs, whose scope does not specifically exclude non-current assets (or disposal groups) classified as held for sale or discontinued operations, continue to apply to such assets (or disposal groups).

BC2 The Board noted that paragraph 30 of IFRS 5 requires 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'.

BC3 The Board noted that some standards, other than IFRS 5, require specific disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations. For instance, paragraph 68 of IAS 33 *Earnings per Share* requires an entity to disclose the amount per share for discontinued operations. The Board also noted that the requirements of IAS 1 *Presentation of Financial Statements* on fair presentation and materiality would also apply to such assets (or disposal groups).

BC4 The Board also noted that, when a disposal group includes assets and liabilities that are not within the scope of the measurement requirements of IFRS 5, disclosures about measurement of these assets and liabilities are normally provided in the other notes to the financial statements and do not need to be repeated, unless they enable users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).

BC5 The Board decided to clarify that IFRS 5 and other standards that specifically refer to non-current assets (or disposal groups) classified as held for sale or discontinued operations set out all the disclosures required in respect of those assets or operations. Additional disclosures about such assets (or disposal groups) may be necessary to comply with the general requirements of IAS 1.

Appendix: arguments supporting view A and view B

At the October 2007 Board meeting 2007, the staff presented two alternative views:

- view A: IFRS 5 and other standards that specifically relate to non-current assets (or disposal groups) classified as held for sale or discontinued operations set out all the disclosures required in respect of those assets or operations. Disclosures required by other standards do not apply to such assets (or disposal groups). Disclosures about such assets (or disposal groups) may be necessary to comply with the general requirements of IAS 1 *Presentation of Financial Statements*.
- view B: Disclosures required by IFRSs, whose scope does not exclude non-current assets (or disposal groups) classified as held for sale or discontinued operations, continue to apply to such assets (or disposal groups).

Arguments in favour of View A

Supporters of view A believe that, for a disposal group for instance, applying the disclosures requirements of other standards to the individual assets and liabilities of the disposal group would not give users relevant information because IFRS 5 or SFAS 144 require assets to be collapsed into one or two line items rather than being included within the regular line items to which the separate disclosure of the other standards would apply.

When an entity is committed to a plan to sell a group of assets and liabilities, what really matters is disclosing information about the planned sale and the disposal group as opposed to what will remain within the entity. Paragraph 30 of IFRS 5 requires 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".

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. 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.

Arguments in favour of View B

Supporters of view B believe 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.

At the May IFRIC meeting, some who supported view B were concerned, for example, that under view A, a liability arising from employee benefits (IAS 19) that is part of a disposal group would continue to be measured according to IAS 19 but the disclosures of IAS 19 would not be provided. They point out that these disclosures help in understanding the measurement requirements of IAS 19 that are quite specific. On the contrary, disclosures about PP&E required by IAS 16 (for instance) would not be very useful because, according to IFRS 5, such asset would cease to be depreciated and be measured at the lower of carrying amount and fair value less costs to sell and presented separately on a single line.