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International Accounting Standards Board

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.
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: **June 2008, London**

Project: **Amendments to IFRS 5**

Subject: **Sweep Issues (Agenda Paper 8)**

PURPOSE OF THE MEMORANDUM

1. The purpose of this memorandum is to address issues raised by (a) IASB Board members in their reviewing of the pre-ballot draft of the Exposure Draft to amend IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and (b) FASB Board members at their May 14, 2008 Board meeting to discuss potential amendments to FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

2. At their respective meetings, the staff would like the Boards to discuss the following issues:

   Issue 1: Subsidiaries that meet the criteria to be classified as held for sale on acquisition
   (a) Presentation on the statement of comprehensive income
   (b) Disclosure exemptions.

   Issue 2: Disclosures for all components of an entity that either have been disposed of or are classified as held for sale
   (a) Unit of disclosure

(b) Use of proceeds from disposal activities.

ISSUE 1: SUBSIDIARIES THAT MEET THE CRITERIA TO BE CLASSIFIED AS HELD FOR SALE ON ACQUISITION

Background

3. In the Agenda Paper for the April 2008 IASB Board meeting and the memorandum for the May 14, 2008 FASB Board meeting (Memorandum #3), the staff discussed whether the proposed disclosures should be required for subsidiaries that meet the criteria to be classified as held for sale on acquisition.

4. At the April 2008 IASB Board meeting, the IASB agreed that, in order to be consistent with the existing IFRS 5, disclosures for such subsidiaries should not be required.

5. At the May 14, 2008 Board meeting, the FASB did not make a decision but asked the staff to come back to the Board after considering the interactions with the disclosure requirements in FASB Statement No. 141 (revised 2007), *Business Combinations.* The FASB also indicated its preference to amend the proposed definition of discontinued operations and include subsidiaries that meet the criteria to be classified as held for sale on acquisition in that definition.

Presentation in the Statement of Comprehensive Income

6. At its April 2008 Board meeting, the IASB did not discuss how the profit or loss from subsidiaries that meet the criteria to be classified as held for sale on acquisition should be presented in the statement of comprehensive income. [This sentence is not reproduced in the observer notes.]

7. At its May 14, 2008 Board meeting, the FASB indicated its preference to amend the proposed definition of discontinued operations and include subsidiaries that meet the criteria to be classified as held for sale on acquisition in that definition.

Staff Analysis and Recommendation

8. The staff recommends that the Boards agree to amend the previously agreed definition of discontinued operations so that it includes subsidiaries that meet the criteria to be classified as held for sale on acquisition, for the following reasons:

(a) If the subsidiaries meet the criteria to be classified as held for sale on acquisition, it would be misleading to present the profit or loss from such subsidiaries together in continuing operations because these subsidiaries have not and will not be integrated in the entity. Moreover, the profit or loss from such subsidiaries will cease to affect comprehensive income within a year.

(b) The profit or loss from subsidiaries that meet the criteria to be classified as held for sale on acquisition will be presented in discontinued operations as a single line item (that is, net of income taxes) under the current IFRS 5 and most likely to be presented in discontinued operations under the current Statement 144. Conversely, all items in continuing operations are currently presented before income taxes and income taxes are presented separately. If the profit or loss from these subsidiaries were to be presented in continuing operations, the Boards would need to decide either (i) to present the profit or loss from these subsidiaries as a single line item (that is, net of income taxes) as an exception to the income tax presentation within continuing operations or (ii) to present the profit or loss from these subsidiaries in more than one line item, at least to separate the pre-tax effects and the income tax effects. Either of these alternatives would lead to a change from the existing guidance. The staff believes that neither alternative would be more preferable than presenting the profit or loss in discontinued operations, where the profit or loss would be presented as a single line item (that is, net of income taxes).

(c) Because these subsidiaries will meet the definition of discontinued operations under the current IFRS 5 and mostly likely to meet the definition under the current Statement 144, there will be smaller disruption in using the revised definition of discontinued operations than if the definition of discontinued operations did not include these subsidiaries.

9. IFRS 5 currently refers to these subsidiaries as “subsidiaries acquired exclusively with a view to resale.” The staff’s interpretation is that this is identical to “subsidiaries that meet the criteria to be classified as held for sale on acquisition.” Because IFRS 5 uses the latter expression when describing disclosure exemptions, the staff recommends that the Boards consistently use the latter expression in defining discontinued operations.

10. Based on the staff recommendation above, the revised definition of discontinued operations would read as follows:

> A discontinued operation is a component of an entity either has been disposed of or is classified as held for sale and:
> (a) meets the definition of an *operating segment* in accordance with FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, or IFRS 8, *Operating Segments*; or
> (b) is a subsidiary that meets the criteria to be classified as held for sale on acquisition.

Question for the Boards

1. Do the Boards agree to amend the proposed definition of discontinued operations so that it includes subsidiaries that meet the criteria to be classified as held for sale on acquisition?

Disclosure Exemptions

11. At its April 2008 Board meeting, the IASB agreed that the proposed disclosures should not be required for subsidiaries that meet the criteria to be classified as held as held for sale on acquisition in order to be consistent with the current disclosure exemptions in IFRS 5. At the May 14, 2008 Board meeting, the FASB did not make a decision but asked the staff to come back to the Board after considering the interactions with the disclosure requirements in Statement 141(R).

12. Paragraph 68 of Statement 141(R), requires the following disclosure for all business combinations (including the acquisition of subsidiaries that meet the criteria to be classified as held for sale on acquisition):…

> To meet the objective in paragraph 67, the acquirer shall disclose the following information for each business combination that occurs during the reporting period:
>
> i. The amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed (paragraph A107)….
>
> r. If the acquirer is a *public business enterprise*, described in paragraph 9 of Statement 131:
> (1) The amounts of revenue and earnings of the acquiree since the acquisition date included in the consolidated income statement for the reporting period
> (2) The revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period (*supplemental pro forma information*)
> (3) If comparative financial statements are presented, the revenue and earnings of the combined entity for the comparable prior reporting

period as though the acquisition date for all business combinations that occurred during the year had occurred as of the beginning of the comparable prior annual reporting period (*supplemental pro forma information*)

If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This Statement uses the term *impracticable* with the same meaning as *impracticability* in paragraph 11 of Statement 154.

13. Similarly, paragraph B64 of IFRS 3, *Business Combinations* (as revised in 2008), requires the following disclosure for all business combinations (including the acquisition of subsidiaries that meet the criteria to be classified as held for sale on acquisition):

> To meet the objective in paragraph 59, the acquirer shall disclose the following information for each business combination that occurs during the reporting period:…
>
> (i) the amounts recognised as of the acquisition date for each major classes of assets acquired and liabilities assumed….
>
> (q)the following information:
>
> (i) the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period; and
>
> (ii) the revenue and profit or loss of the combined entity for the current period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period.
>
> If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This IFRS uses the term ‘impracticable’ with the same meaning as in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Staff Analysis and Recommendation

14. The staff recommends that an entity should be provided with disclosure exemptions for both the discontinued operations requirements and the business combinations requirements (only for items quoted in paragraph 12 and 13 of this memorandum) for subsidiaries that meet the criteria to be classified as held for sale on acquisition. The Boards will not be providing a true exemption if they only provided an exemption under the discontinued operations requirements, because an entity would need to

provide the information that otherwise would have been required in order to comply with the business combinations requirements.

Question for the Boards

2. Do the Boards agree that disclosure exemptions should be provided for both the discontinued operations requirements and the business combinations requirements (for items quoted in paragraphs 12 and 13 of this memorandum) for subsidiaries that meet the criteria to be classified as held for sale on acquisition?

ISSUE 2: DISCLOSURES FOR ALL COMPONENTS OF AN ENTITY THAT EITHER HAVE BEEN DISPOSED OF OR ARE CLASSIFIED AS HELD FOR SALE

Background

15. Both Boards have agreed to require the following disclosure for all components of an entity that either have been disposed of or are classified as held for sale, except for subsidiaries that meet the criteria to be classified as held for sale on acquisition which is discussed in Issue 1:

(a) the use of proceeds from disposal activities;
(b) the major classes of revenues and expenses, including impairments, depreciation and amortization;
(c) if the component of an entity includes non-controlling interests, profit or loss attributable to the parent;
(d) the major classes of cash flows (operating, investing, and financing); and
(e) the major classes of assets and liabilities.

Unit of Disclosure

16. The disclosure requirements the Boards agreed on were silent as to whether the proposed additional disclosures could be aggregated for certain components of an entity that either have been disposed of or are classified as held for sale. Some Board members suggested that the Boards clarify that the disclosure should be provided separately for each component of an entity that either has been disposed of or is classified as held for sale, meaning that aggregation should be prohibited. Other Board members did not state a position but noted that the guidance was unclear.

17. The staff notes that existing standards are also silent as to whether the disclosure requirements related to a non-current asset (or a disposal group) that either has been disposed of or is classified as held for sale could be aggregated.

Staff Analysis and Recommendation

18. The staff recommends that the Boards continue to remain silent on this issue, leaving preparers and auditors able to decide on a level of aggregation that results in disclosures proportionate to the significance of the disposals to the entity. Nevertheless, the staff recommends that the Boards specifically ask in the exposure draft whether disclosures should be provided separately for each component of an entity and each non-current asset (disposal group) that either has been disposed of or is classified as held for sale.

Questions for the Boards

3. Do the Boards agree that they should remain silent as to whether the proposed disclosures should be provided separately for each component of an entity and each non-current asset (disposal group) that either has been disposed of or is classified as held for sale?

4. Do the Boards agree that the exposure drafts should include a question on whether the disclosures should be provided separately for each component and each non-current asset (disposal group) that either has been disposed of or is classified as held for sale?

Use of Proceeds from Disposal Activities

19. In reviewing the preballot draft of the Exposure Draft to amend IFRS 5, IASB Board members have noted that the disclosure requirement related to the use of proceeds from disposal activities is inappropriate for the following reasons:

    (a) The proposed disclosure may lead to requiring an entity to provide forward-looking statements, which are usually not provided within the financial statements.

    (b) There are very few cases where an entity can specify the use of cash proceeds from a specific disposal activity. There also may be a long time difference between the disposal activity and the use of the proceeds. The statement of cash flows and the MD&A usually would provide the overall picture of what cash has come in and how it was used.

    (c) If the proposed disclosure requires only a general discussion and does not require the disclosure of the specific use of cash proceeds, the usefulness of the disclosure is questionable.

Staff Analysis and Recommendation

20. The staff shares the concerns raised by IASB Board members and, accordingly, recommends that this specific disclosure item be deleted from the proposed disclosure requirements.

Question for the Boards

5. Do the Boards agree that the use of proceeds from disposal activities need not be required to be disclosed?