



Project	IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>
Topic	Write-down of a disposal group and discontinued operations OCI items

Purpose of this paper

1. The purpose of the paper is to respond to a request made by the Board at its July 2009 meeting. The request was for the staff to work with the FASB to ensure that IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* remains aligned with US GAAP following:
 - (a) the Board's tentative decision to amend IFRS 5 to clarify how an impairment loss should be recognised when the impairment is greater than the carrying amount of non-current assets in the disposal group (the write down of disposal group issue);
 - (b) the Board's tentative decision to address an inconsistency in the disclosure requirements of IFRS 5 for the presentation of other comprehensive income (OCI) items relating to discontinued operations (the OCI presentation issue); and
 - (c) the Board's request for the staff to determine whether improvement is needed to the presentation and/or disclosures for accumulated other comprehensive income (AOCI) relating to discontinued operations (the AOCI presentation issue).

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB. The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

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Background information

Write down of disposal group

2. In July 2009, agenda paper 3B was presented to the Board. This agenda paper addressed a request received by the IFRIC on the recognition of impairment losses for a disposal group.
3. The agenda paper identified that paragraph 15 of IFRS 5 establishes a measurement principle to measure the disposal group at the lower of its carrying amount and fair value less costs to sell (FVLCTS).
4. However, paragraph 23 of IFRS 5 includes measurement exceptions that restrict how adjustments to reduce a disposal group to FVLCTS can be recorded. These exceptions limit the allocation of measurement adjustments to the carrying amount of the non-current assets of the group that are within the measurement scope of IFRS 5.
5. When these measurement exceptions apply, the disposal group may be measured at an amount that exceeds the lower of its carrying amount and FVLCTS.

OCI and AOCI presentation

6. In July 2009, agenda paper 6A was presented to the Board. The paper proposed an amendment to IFRS 5 to require disclosure of the amount of OCI relating to discontinued operations when an entity presents a single statement of comprehensive income, or when a statement of comprehensive income is presented in addition to a separate income statement.
7. During the meeting, the Board also requested that the staff consider whether additional amendments are needed to enhance the disclosures of AOCI relating to discontinued operations.

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Staff analysis***Write down of disposal group***

8. The potential amendment to IFRS 5 would require that a disposal group must always be measured at the lower of its carrying amount and FVLCTS.
9. This could be achieved by viewing a disposal group as **one single asset or one single liability**, rather than as a group of assets and liabilities. The measurement requirements would then be applied to this single asset or liability, and would not require allocation to the individual assets and liabilities included within the disposal group.
10. This proposed approach would be similar to the requirements of IAS 28 *Investments in Associates*, but would represent a significant change in the **unit of account** identification in IFRS 5.
11. This proposed amendment would also require further consideration of the:
 - (a) **presentation requirements** of paragraph 38 of IFRS 5, which currently do **not** allow presentation of the assets and liabilities of a disposal group as a single asset or liability.
 - (b) **measurement scope** of IFRS 5, including how a disposal group with a FVLCTS of less than zero should be recognised, given the guidance in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
 - (c) **impairment allocation requirements** of IFRS 5 and whether additional amendments are needed to IAS 36 *Impairment of Assets* to address issues that may exist in the context of a cash generating unit (CGU).

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OCI presentation

12. Paragraphs 31-36A of IFRS 5 address the presentation and disclosure requirements relating to **discontinued operations**. This provides guidance on the presentation and disclosure requirements relating to the statement of comprehensive income (or separate statements of income and comprehensive income).
13. However this guidance is not clear on the requirement to make a separate disclosure of the amount of OCI relating to discontinued operations; specifically, when a statement of comprehensive income is presented in addition to a separate income statement.

AOCI presentation

14. Paragraphs 38-40 of IFRS 5 address the presentation and disclosure requirements relating to a disposal group classified as **held for sale**. This provides guidance on the presentation and disclosure requirements relating to the statement of financial position.
15. In order to meet the definition of a discontinued operation, a component of an entity (if it has not yet been disposed of) must be classified as held for sale. Consequently, an analysis on the presentation of AOCI relating to a disposal group classified as held for sale would, by definition, include AOCI relating to a discontinued operation that has not yet been disposed of.
16. In reviewing paragraphs 38-40 of IFRS 5, the staff note that paragraph 38 of IFRS 5 states:

... An entity shall present separately any cumulative income or expense recognised in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale.

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17. As noted in paragraph BC 58 of IFRS 5, this presentation requirement was added to reflect the views of respondents to Exposure Draft 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations*. These respondents had identified that the separate presentation within equity of amounts relating to assets and disposal groups classified as held for sale would provide useful information.
18. These requirements in paragraph 38 of IFRS 5 were **not** discussed at the July 2009 Board meeting. However, the staff believe that these presentation requirements address the concerns raised by the Board as to whether additional amendments are needed to enhance the disclosures on AOCI relating to discontinued operations.

Consistency with U.S. GAAP

19. Subsequent to the July 2009 IASB meeting, the IASB staff held discussions with the FASB staff on all three of these issues. During these discussions, it was noted that:
 - (a) the FASB staff are not aware of any previous discussions that the FASB have held, or questions it has received from constituents, on these three issues.
 - (b) based on their preliminary analysis, the FASB staff believe that these issues could arise in the context of current US GAAP, specifically FAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (now codified in ASC 360-10).
 - (c) the FASB staff do not have any current plans to propose any amendments to the current guidance on these issues. Any proposed amendments made by the IASB to IFRS 5 would therefore increase divergence with current US GAAP.

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Staff recommendation

Write down of disposal group

20. The staff recommend that additional amendments to IFRS 5 to address the write down of a disposal group issue are **not** made. This reflects the staff view that these amendments are significant enough to require a separate project. This project would need to assess matters including the implications of:
- (a) changing the unit of account definition to be applied in measuring disposal groups.
 - (b) amendments to guidance on the measurement and allocation of impairment losses and reversals in other IFRSs (eg IAS 36).
 - (c) any amendments creating increased divergence with US GAAP.
21. The staff do not believe that a new project on IFRS 5 should be added to the Board's current work plan. This is also consistent with the views of the FASB staff. The Board may want to consider at a later date a separate project to address this issue.

OCI presentation

22. The staff recommend that the Board does **not** proceed with an amendment to IFRS 5 to clarify that OCI relating to discontinued operations shall be presented separately from other OCI items in cases when an entity presented a separate income statement and statement of comprehensive income, or a single statement of comprehensive income.
23. The staff believe that a separate amendment to IFRS 5 to address this issue is no longer appropriate given that:

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- (a) the joint IASB and FASB *Financial Statement Presentation* project will replace existing standards on financial statement presentation, including IAS 1 *Presentation of Financial Statements*.
- (b) since the July 2009 meeting, both the IASB and the FASB have tentatively decided to develop guidance that requires an entity to prepare **a single** statement of comprehensive income.
- (c) a proposed amendment through the *Annual Improvements Project* would be unlikely to be effective until the second quarter of 2011. The final standard on financial statement presentation is expected to be published at about the same time.

AOCI presentation

- 24. The staff believe that there is **no need** for an additional amendment to enhance the disclosures on AOCI relating to discontinued operations.
- 25. Specifically, the staff note that:
 - (a) paragraph 38 of IFRS 5 provides sufficient requirements for the presentation of AOCI relating to a non-current asset (or disposal group) classified as held for sale. This includes AOCI relating to discontinued operations that have not been disposed of.
 - (b) any additional amendments would **increase** current divergence between IFRS 5 and US GAAP.
 - (c) any amendments to paragraph 54 of IAS 1 to require AOCI to be presented as a separate line item in the statement of financial position should be addressed through the Board's *Financial Statement Presentation* project.

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26. As a result, the staff do not recommend that any amendments should be made to IFRS 5 to address the three issues discussed in this agenda paper.

Question 1 – Amendments to IFRS 5

Does the Board agree with the staff recommendation that no amendments should be made now to IFRS 5 to address the three issues discussed in this agenda paper?