IFRS

STAFF PAPER

September 2013

IFRS Interpretations Committee Meeting

Project	**IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**
Paper topic	Write-down of a disposal group

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Introduction

1. As mentioned in Agenda Paper 10, at its July 2012 meeting, the Interpretations Committee ('the Interpretations Committee') decided to revisit the two issues related to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. This Agenda Paper addresses, out of the two issues, an issue of the recognition of impairment loss for a disposal group. The issue relates to a circumstance in which the difference between the carrying amount of a disposal group and its fair value less costs to sell ('FVLCTS') exceeds the carrying amount of non-current assets in a disposal group that are within the scope of IFRS 5.

2. The objective of this Agenda Paper is to provide the Interpretations Committee with updates on the results of our outreach and staff analysis on this issue and to make a recommendation to the Interpretations Committee.

3. This Agenda Paper is organised as follows;

   (a) Summary of the issue

   (b) Previous discussion by the Interpretations Committee and the IASB

   (c) Summary of outreach conducted

(d) Staff analysis

(e) Agenda criteria assessment

(f) Summary and staff recommendation

(g) Appendix A— Proposed wording for tentative agenda decision

(h) Appendix B— Extracts of IASB and IFRIC Updates.

Summary of the issue

4. In May 2009, the Interpretations Committee received a request to address an issue with respect to write-down of a disposal group to the lower of its carrying amount and FVLCTS in accordance with IFRS 5 when the write-down exceeds the carrying amount of non-current assets in a disposal group. The submission provided a specific example in which the increase in the fair value of a liability within the disposal group is identified.

5. The submitter's example is as follows.

- Entity A intends to sell one of its subsidiaries, Entity B. Entity A's intended sale of Entity B meets the IFRS 5 criteria for classification of Entity B (the disposal group) as held for sale. Entity B is a service organisation with few non-current assets. The carrying amount of Entity B's net assets subsequent to the application of all IFRSs other than IFRS 5 is CU130[1]. For measurement purposes of IFRS 5, FVLCTS is determined to be CU(30), being the fair value of Entity B's net assets of CU(20) and costs to sell of CU10. (FVLCTS is significantly lower than the carrying amount of the disposal group because Entity B has fixed rate borrowings with a fair value greatly in excess of the carrying amount measured at amortised cost.)
- The individual carrying amounts and respective fair values of Entity B's assets and liabilities are as follows:

[1] In this Agenda Paper, currency amounts are denominated in 'currency units' (CU).

	Carrying amount	Fair value
	CU	CU
Intangible assets	0	0
Property, plant and equipment	120	120
Cash and cash equivalents	170	170
Total	290	290
Issued debt—current portion	50	50
Issued debt—non-current portion	110	260
Total	160	310
Net assets	130	(20)

6. Paragraph 15 of IFRS 5 requires an entity to measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and FVLCTS. Paragraph 15 of IFRS 5 states that:

> 15 An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

7. For recognition of impairment losses of a disposal group, paragraph 23 of IFRS 5 states that[2]:

> 23 The impairment loss (or any subsequent gain) recognised for a disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this

[2] Guidance on Implementing IFRS 5 (Example 10) illustrates the allocation of an impairment loss to a disposal group.

IFRS, in the order of allocation set out in paragraphs 104(a) and (b) and 122 of IAS 36 (as revised in 2004).

8. The question is how much of the potential impairment loss of CU160 (being the difference between the carrying amount of the disposal group of CU130 and the FVLCTS of the disposal group of minus CU30) should be recognised. The submitter identified four views on how to recognise and allocate an impairment loss of a disposal group when the difference between its carrying amount and FVLCTS exceeds the carrying amount of non-current assets in a disposal group.

View A—Limit an impairment loss to non-current assets only

9. According to paragraph 23 of IFRS 5, the impairment loss recognised reduces only the carrying amount of non-current assets within a disposal group. Consequently, in the example above, the impairment loss recognised is limited to the carrying amount of property, plant and equipment ('PPE'), ie CU120.

View B—Limit an impairment loss to net assets of a disposal group

10. The carrying amount of a disposal group as a whole should not be reduced below zero. Consequently, any impairment loss is limited to the carrying amount of the disposal group, ie CU130 in the example above. Since the carrying amount of PPE is CU120 in the example above, cash and cash equivalents is reduced by CU10.

View C—Limit an impairment loss to total assets of a disposal group

11. IFRS 5 only relates to the measurement of assets within a disposal group. An additional liability should only be recognised if the definition of a liability in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is met, ie if there is a present obligation arising from a past event where an outflow of resources is probable. Thus, to the extent that the impairment loss exceeds the carrying amount of total assets in a disposal group, no additional liability is recognised. Consequently, in the example above, the full impairment loss of CU160 (fair value write-down of CU150 and costs to sell of CU10) is recognised. This is allocated against the non-current assets first

(CU120) and then to the current assets included within the disposal group (resulting in a write down of cash and cash equivalents by CU40).

View D—Limit an impairment loss to non-current assets and recognise a liability for excess to ensure that a disposal group is measured at fair value less costs to sell

12. According to paragraph 23 of IFRS 5, the impairment loss should only be allocated to non-current assets within a disposal group. In other words, current assets should not be written down. However, paragraph 15 of IFRS 5 requires that a disposal group is measured at the lower of its carrying amount and FVLCTS. Consequently, although the criteria for recognition of a liability in accordance with IAS 37 is not met, where the impairment loss exceeds the carrying value of non-current assets in the disposal group, an additional liability should be recognised. In the example above, an impairment loss of CU160 (ie to FVLCTS) is recognised, reducing the non-current assets to zero and resulting in recognition of a liability of CU40.

13. In the example above, View A, B, C and D are compared as follows.

The amount of Entity B (the disposal group) after applying the write-down				
	View A	**View B**	**View C**	**View D**
	CU	CU	CU	CU
PPE	0	0	0	0
Cash and cash equivalents	170	160	130	170
Total assets	170	160	130	170
Total Liabilities	160	160	160	200
Net Assets	10	0	(30)	(30)

Previous discussion by the Interpretations Committee and the IASB

14. The Interpretations Committee discussed this issue twice in July and November 2009[3] and the IASB deliberated on this issue twice in July and December 2009[4].

15. At its meeting in July 2009, the Interpretations Committee noted that there could be a conflict between paragraphs 15 and 23 of IFRS 5 to recognise the disposal group at FVLCTS and its limitation on the assets to which the impairment loss can be allocated. Consequently, the Interpretations Committee noted that divergence could arise in practice.

16. The Interpretations Committee concluded that the issue relates to the basic requirements of IFRS 5 and therefore could not be addressed by an interpretation. For this reason, the Interpretations Committee tentatively decided not to add the issue to its agenda. However, the Interpretations Committee recommended that the IASB should amend IFRS 5 as a matter of priority to address the issue.

17. At the July 2009 IASB meeting, the IASB agreed with the Interpretations Committee's conclusion that the issue relates to the basic requirements of IFRS 5 and therefore it should not be included in the annual improvement project. The IASB decided tentatively to consider amending IFRS 5 as a matter of priority and to work with the FASB to ensure that IFRS 5 remains

[3] July 2009 IFRS IC meeting:
- Agenda paper 3E http://www.ifrs.org/Meetings/Documents/IFRICJul09/AP3to3GFile.zip
- IFRIC Update http://www.ifrs.org/Updates/IFRIC-Updates/2009/Documents/IFRIC0907.pdf

November 2009 IFRS IC meeting:
- Agenda paper 4B http://www.ifrs.org/Meetings/Documents/IFRICNov09/0911AP4Ato4D.zip
- IFRIC Update http://www.ifrs.org/Updates/IFRIC-Updates/2009/November2009IFRICUpdate.pdf

[4] July 2009 IASB meeting:
- Agenda paper 3B http://www.ifrs.org/Meetings/Documents/2009/AP3to3EJuly09.zip
- IASB Update http://www.ifrs.org/Updates/2009/Documents/July2009IASBUpdate.pdf

December 2009 IASB meeting:
- Agenda paper 20 http://www.ifrs.org/Meetings/Documents/IASBDec2009/IFRS51209b20obs.pdf
- IASB update http://www.ifrs.org/Updates/2009/Documents/December2009Update.pdf

aligned with US GAAP. The IASB also recommended that the staff should perform further analysis of the issue, including discussions with the FASB, and provide a subsequent update to the IASB.

18. At the Interpretations Committee meeting in November 2009, the staff reported that one comment letter had been received, which expressed agreement with the tentative agenda decision made by the Interpretations Committee at its meeting in July 2009. Consequently, the Interpretations Committee decided not to add the issue to its agenda. However, the Interpretations Committee recommended that the IASB should consider an amendment to IFRS 5 to address this issue.

19. At the December 2009 IASB meeting, the staff recommended that additional amendments to IFRS 5 to address this issue should not be made. The staff viewed that any amendment would require a separate project considering matters including the implications of:

    (a) changing the definition of 'unit of account' 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 *Impairment of Assets*); and

    (c) any amendments that would create increased divergence with US GAAP.

20. Consequently, the IASB decided not to add such a project to its agenda.

21. Afterwards, as mentioned in the introduction of this paper, at its July 2012 meeting, the Interpretations Committee decided to revisit this issue.

Summary of outreach conducted

22. In August 2012, we requested information from the International Forum of Accounting Standard-Setters (IFASS) to help us assess the issues against the Interpretations Committee's agenda criteria. Specifically, we asked:

(i) Have you encountered these issues in your jurisdiction? If yes, how common are they?

(ii) What is the prevalent practice applied in your jurisdiction when faced with these issues? Why was that approach taken?

(iii) Did you observe diversity in practice? If yes, please explain the basis for your view.

23. The breakdown from the IFASS is as follows:

Geographical area	Number of responses
Asia-Oceania	5
Europe	3
Latin America (including Mexico)	1
North America	1
Africa	1
	11

24. One IFASS member noted that this issue is common in its jurisdiction; seven members stated that there had been occasional or rare cases; and three members mentioned that they had not observed any instances of it. Consequently, we think that the issue is not common on the whole.

25. The one respondent who said that this issue is common stated that the prevalent practice is to recognise the full impairment loss, either by allocating it to other assets or by recognising it as an additional liability.

26. There was one respondent who stated that they had not seen diversity because entities had applied paragraph 15 of IFRS 5, viewing a disposal group as if it were one single asset for measurement. The other respondents stated that they had encountered, or expected to see, diversity in practice. The different accounting practices that respondents noted can be summarised as follows.

(a) with regard to allocating an impairment loss of the assets in a disposal group:

  (i) limit an impairment loss to the carrying amount of the non-current assets in a disposal group that are within the measurement scope of IFRS 5; or

  (ii) recognise an impairment loss for all other assets in a disposal group (except cash); this reflects a view that individual assets within the disposal group 'lose' their identities and, if an entity expects to incur a loss on sale in excess of the impairment associated with long-lived assets, it may be an indicator that other assets, such as receivables or inventories, are impaired.

(b) with regard to measuring a disposal group:

  (i) recognise a liability so that a disposal group is measured at the lower of the carrying amount or FVLCTS, treating the disposal group as a single asset for measurement; or

  (ii) do not recognise a liability because it does not meet the recognition criteria specified in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; this may result in the total carrying amount of the disposal group being higher than its FVLCTS.

27. In July 2013, we also requested information from securities regulators asking the same question as the ones to the IFASS. Three securities regulators responded.

28. Two regulators noted that the majority of the respondents[5] to this outreach request commented that this issue is common in their jurisdictions. Another regulator said that it has encountered this issue on several occasions.

29. The regulators noted that most respondents mentioned that the common practice is to recognise the impairment loss in full, for example, allocating the

[5] One regulator noted that three out of four jurisdictions said that this issue is common; and the other regulator noted that all of the two jurisdictions who responded to the outreach request said that this issue is common.

remainder impairment loss on a pro-rata basis to the various current assets or reflecting as a valuation allowance against the total assets. However, they noted that there is, or can be, diversity in practice.

FASB staff informal views

30. In August 2012, we also contacted the FASB staff with similar questions to those above, because the requirements in IFRS 5 were aligned with those in US GAAP. They noted that they had previously received a technical enquiry about this issue. In addition, they noted that the issue had been addressed by a US SEC staff member in a speech in 2008. The US SEC staff member noted two accepted interpretations for addressing this issue[6]:

> (…)
>
> The first view interprets paragraph 34 of Statement 144[7] to redefine the unit of account as the disposal group and to record it at the lower of its carrying amount or fair value less cost to sell. In effect, individual assets lose their identity, even though the recoverability of AR and inventory are addressed by other GAAP.
>
> (…)
>
> The second view looks at paragraph 37 of Statement 144, which indicates a "loss…shall adjust only the carrying amount of a long-lived asset, whether classified as held for sale individually or as part of a disposal group." This approach would limit the loss to the carrying value of the long-lived assets. There seems to be an additional level of simplicity in the second view in that it does not result in the recognition of what, in effect, is a liability created by an asset impairment model. (…)
>
> (…)

[6] Two interpretations are quoted from the speech addressed by a US SEC staff member in 2008 (http://www.sec.gov/news/speech/2008/spch120808ab.htm)

[7] Currently ASC 360

Staff analysis

Analysis 1: does IFRS 5 allow an impairment loss to be allocated to assets and liabilities in a disposal group that are not within the scope of the measurement requirements of IFRS 5?

31. Paragraph 23 of IFRS 5 clearly states that the impairment loss for a disposal group reduces the carrying amount of 'the non-current assets in a disposal group that are within the scope of the measurement requirements of IFRS 5' (hereinafter referred to as 'the non-current assets in a disposal group'). Paragraph 23 of IFRS 5 states that [emphasis added]:

> 23 The impairment loss (or any subsequent gain) recognised for a disposal group shall reduce (or increase) the carrying amount of the **non-current assets in the group that are within the scope of the measurement requirements of this IFRS**, in the order of allocation set out in paragraphs 104(a) and (b) and 122 of IAS 36 (as revised in 2004).

32. In other words, the impairment loss to be recognised in accordance with paragraph 23 of IFRS 5 **should not** affect the carrying amount of 'any assets and liabilities in a disposal group that are **not** within the scope of the measurement requirements of IFRS 5' (hereinafter referred to as 'other assets and liabilities in a disposal group'). We note that such assets and liabilities are to be remeasured in accordance with paragraph 19 of IFRS 5. Paragraph 19 of IFRS 5 states that [emphasis added]:

> 19 On subsequent remeasurement of a disposal group, the carrying amounts of **any assets and liabilities that are not within the scope of the measurement requirements of this IFRS**, but are included in a disposal group classified as held for sale, **shall be remeasured in accordance with applicable IFRSs** before the fair value less costs to sell of the disposal group is remeasured.

33. On the basis of the above observation, we think that View B and View C, among those views identified by the submitter, do not meet the requirement in paragraph 23 of IFRS 5. This is because, taking the approach in these views

the impairment loss affects the carrying amount of other assets and liabilities in a disposal group in the submitter's case.

34. Consequently, we think that **View B** (ie limiting an impairment loss to net assets of a disposal group) **and View C** (limiting an impairment loss to total assets of a disposal group) **would not be appropriate accounting methods.**

Analysis 2: should an additional liability be recognised for an impairment loss in excess of the carrying amount of the non-current assets in a disposal group?

35. Analysis 1 shows that an impairment loss in excess of the carrying amount of the non-current assets in a disposal group should not be allocated to other assets and liabilities in a disposal group. However, the question arises whether such impairment loss should be recognised by an additional liability.

36. We think that an additional liability should be recognised if and only if the liability meets the requirements in another IFRS, for example, IAS 37. This is because consistency with other Standards would be implicit in any Standard unless stated otherwise. In addition, paragraph 19 of IFRS 5 requires that any assets and liabilities that are not within the scope of the measurement requirements of IFRS 5 should be remeasured in accordance with applicable IFRSs before the FVLCTS of the disposal group is remeasured. Consequently, if a liability should be recognised in accordance with IAS 37, then it would be recognised before the remeasurement of the disposal group.

37. We note that View D (ie limiting an impairment loss to non-current assets in a disposal group and recognise a liability for any remaining impairment loss in excess of the carrying amount of non-current assets in a disposal group) requires a liability to be recognised for an impairment loss in excess of the carrying amount of non-current assets in a disposal group. Consequently, we think that **View D would not be an appropriate accounting method**.

Analysis 3: paragraphs 15 and 23 of IFRS 5 are contradictory each other?

38. We note that conclusions of the analyses above would result in a disposal group being measured, in the submitter's case, at an amount that is neither its carrying amount nor its FVLCTS. Hence, some may argue that applying paragraph 23 of IFRS 5 is inconsistent with the requirement in paragraph 15 of IFRS 5. These paragraphs state that [emphasis added]:

> 15 An entity shall measure a non-current asset (or disposal group) classified as held for sale at the **lower of its carrying amount and fair value less costs to sell**.
>
> 23 The impairment loss (or any subsequent gain) recognised for a disposal group shall reduce (or increase) the carrying amount of the **non-current assets in the group that are within the scope of the measurement requirements of this IFRS**, in the order of allocation set out in paragraphs 104(a) and (b) and 122 of IAS 36 (as revised in 2004).

39. However, we think that paragraphs 15 and 23 of IFRS 5 are not contradictory. We think that paragraph 15 of IFRS 5 sets out the principle while paragraph 23 of IFRS 5 sets a limitation to the application of that principle. In other words, paragraph 15 of IFRS 5 requires an entity to measure a disposal group at the lower of its carrying amount, whereas paragraph 23 of IFRS 5 limits this principle by restricting the recognition of the impairment loss to the non-current assets in the disposal group that are within the measurement scope of IFRS 5.

40. In addition, we think that this analysis can be analogised to paragraphs of IAS 36, which are as follows[8]:

[8] IAS 36 also sets out similar requirements with regard to recognising impairment loss for a cash-generating unit, as described in paragraphs 104, 105 and 108 of IAS 36. Hence, we believe that these paragraphs can also be analogised in our case. However, the reason why we analogise to paragraphs 59 and 62 of IAS 36 is that it is simpler and clearer for the purpose of our analogy.

> 59 If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.
>
> 62 When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognise a liability if, and only if, that is required by another Standard.

41. Paragraph 59 of IAS 36 sets out a measurement principle that an asset should be measured at the lower of its carrying amount and its recoverable amount. However, this measurement principle is limited by paragraph 62 of IAS 36 because an impairment loss in excess of the carrying amount of the asset may not be recognised in accordance with paragraph 62 of IAS 36; in that case, an asset is not reduced to its recoverable amount. Nonetheless, paragraph 62 of IAS 36 does not cause a conflict with 59 of IAS 36.

42. On the basis of our analysis, we think that IFRS 5 allows a disposal group to be measured at an amount that is neither its carrying amount nor its FVLCTS.

43. Consequently, we think that **View A** (ie limiting an impairment loss to non-current assets in a disposal group) **is in line with IFRS 5** even though a disposal group, under View A, is, in the submitter's case, measured neither at its carrying amount nor at its FVLCTS.

Agenda criteria assessment

44. The staff's assessment of the agenda criteria[9] is as follows:

Source of issue
Issues could include: the identification of divergent practices that have emerged for accounting for

[9] These criteria can be found in the IASB and IFRS Interpretations Committee Due Process Handbook as indicated in the paragraphs below.

particular transactions, cases of doubt about the appropriate accounting treatment for a particular circumstance or concerns expressed by investors about poorly specified disclosure requirements (5.14).	
Criteria	
We should address issues(5.16):	
that have widespread effect and have, or are expected to have, a material effect on those affected;	The feedback from outreach activity to the IFASS indicates that the issue is not common on the whole. In contrast, the feedback from the securities regulators shows that many jurisdictions consider the issue as common. Consequently, the outreach has given us an unclear indication about whether the issue is common. However, we do not think that it is necessary to take this issue onto the agenda because we think that the current requirements of IFRS 5 are clear as we showed in our staff analysis of this paper.
where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and	**No.** In our outreach activity, some respondents stated that there is diversity in practice, pointing out a potential conflict between paragraphs 15 and 23 of IFRS 5. However, we showed in our staff analysis of this paper that these paragraphs are not in conflict with each other. We also showed that an impairment loss in excess of the carrying amount of the non-current assets in a disposal group that are within the scope of IFRS 5 should not be allocated to other assets and liabilities in the disposal group, in accordance with paragraph 23 of IFRS

	5. Consequently, we think that neither an Interpretation nor an amendment to the Standards is necessary.
that can be resolved efficiently within the confines of existing IFRSs and the *Conceptual Framework for Financial Reporting*.	**N/A**
In addition:	
Is the issue sufficiently narrow in scope that the Interpretations Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process that would be required when making changes to IFRSs (5.17)?	**N/A**
Will the solution developed by the Interpretations Committee be effective for a reasonable time period (5.21)? (The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified)..	**N/A**

Summary and staff recommendation

45. On the basis of the staff analysis above and agenda criteria assessment, we recommend that the Interpretations Committee should not take this issue onto its agenda. In our view:

(a) an impairment loss in excess of the carrying amount of the non-current assets in a disposal group should not be allocated to other assets and liabilities in a disposal group, in accordance with paragraph 23 of IFRS 5 (see Analysis 1 in this paper);

(b) an additional liability for an impairment loss in excess of the carrying amount of the non-current assets in a disposal group should be recognised, if and only if that is required by another IFRS, before applying IFRS 5. (see Analysis 2 in this paper);

(c) paragraphs 15 and 23 of IFRS 5 are not contradictory each other because paragraph 23 of IFRS 5 is a scope limitation on the application of the principle set out in paragraph 15 of IFRS 5. (see Analysis 3 in this paper); and

(d) consequently, **View A** is the appropriate accounting method.

46. We have set out proposed wording for tentative agenda decision in **Appendix A**.

Appendix A—Proposed wording for tentative agenda decision

A1. We propose the following wording for the tentative agenda decision.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—Write-down of a disposal group

The Interpretations Committee discussed the issue of the recognition of an impairment loss for a disposal group classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* The issue relates to a circumstance in which the difference between the carrying amount of a disposal group and its fair value less costs to sell exceeds the carrying amount of the non-current assets in the disposal that are within the measurement requirement of IFRS 5.

The Interpretations Committee noted that the impairment loss in excess of the carrying amount of the non-current assets in a disposal group that are within the scope of the measurement requirement of IFRS 5 should not be allocated to other assets and liabilities in the disposal group, in accordance with paragraph 23 of IFRS 5. The Interpretations Committee also noted that an additional liability for an impairment loss in excess of the carrying amount of the non-current assets in a disposal group should be recognised, if and only if that is required by another IFRS, before applying IFRS 5.

The Interpretations Committee observed that the requirement in paragraphs 15 of IFRS 5 (ie to measure a disposal group at the lower of its carrying amount and fair value less costs to sell) is not in conflict with the requirement in paragraph 23 of IFRS 5 (ie to allocate an impairment loss when the impairment loss exceeds the carrying amount of the non-current assets in a disposal group that are within the scope of the measurement requirements of IFRS 5). Instead it noted that paragraph 23 of IFRS 5 is a scope limitation on the application of the principle set out in paragraph 15 of IFRS 5.

On the basis of the analysis above, the Interpretations Committee concluded that, in the light of the existing requirements of IFRS 5, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.

Appendix B—Extracts of IASB and IFRIC Updates

IFRIC Update July 2009

Tentative agenda decisions

The IFRIC received a request for guidance on the write-down of a disposal group to the lower of its fair value less costs to sell and its carrying amount when the write-down exceeds the carrying amount of non-current assets.

The IFRIC noted paragraph 22 of IFRS 5 requires the impairment loss recognised for a disposal group to be allocated to reduce the carrying amount of the non-current assets of the group that are within the measurement requirements of IFRS 5. This can result in a conflict between IFRS 5's requirement to recognise the disposal group at fair value less costs to sell and its limitation on the assets to which that loss can be allocated. Consequently, the IFRIC noted that divergence could arise in practice. The IFRIC also noted that the issue could be widespread in the current economic environment.

The IFRIC concluded that the issue relates to the basic requirements of IFRS 5 and therefore could not be addressed by an interpretation. For this reason, the IFRIC [decided] not to add the issue to its agenda. However, the IFRIC recommended that the Board amend IFRS 5 as a matter of priority to address the issue.

IASB Update July 2009

IFRS 5 requires the impairment loss recognised for a disposal group be allocated to reduce the carrying amount of the disposal group's non-current assets that are within the measurement requirements of IFRS 5. When the write-down exceeds the carrying amount of non-current assets, a conflict exists between IFRS 5's requirement to recognise the disposal group at fair value less costs to sell and its limitation on the assets to which that loss can be allocated.

The Board agreed with the IFRIC's conclusion that the issue relates to the basic requirements of IFRS 5 and therefore it should not be included in the annual improvements project. However, the issue could be widespread in the current economic environment. Therefore, the Board decided tentatively to consider amending IFRS 5 as a matter of priority and to work with the FASB to ensure IFRS 5 remains aligned with US GAAP.

IFRIC Update November 2009

<u>IFRIC agenda decisions</u>

The IFRIC received a request for guidance on how a disposal group should be recognised at the lower of its carrying amount and fair value less costs to sell when the difference between the carrying amount and fair value less costs to sell exceeds the carrying amount of non-current assets.

The IFRIC noted paragraph 23 of IFRS 5 requires the impairment loss recognised for a disposal group to be allocated to reduce the carrying amount of the non-current assets of the group that are within the measurement requirements of IFRS 5. This can result in a conflict between IFRS 5's requirement to recognise the disposal group at fair value less costs to sell and its limitation on the assets to which that loss can be allocated. Consequently, the IFRIC noted that divergence could arise in practice.

IASB Update December 2009

<u>Discontinued operations – Possible annual improvements</u>

The Board considered issues relating to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. These matters had been discussed by the Board at its meeting in July 2009, when it had asked the staff to perform further work, including discussing with the FASB staff alignment of IFRS 5 with US GAAP on these issues.

The issues considered by the Board were:

- how an impairment loss should be recognised when the impairment is greater than the carrying amount of non-current assets in the disposal group.
- …

Also considered were other concerns noted by constituents subsequent to the July 2009 Board meeting relating to the reversal of impairment losses.

The Board decided not to add a project to its agenda to address the impairment measurement and reversal issues at this time.