

STAFF PAPER

September 2014

IFRS Interpretations Committee Meeting

Project	IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>		
Paper topic	Cover note		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

Introduction

1. At the July 2012 meeting, the IFRS Interpretations Committee (‘the Interpretations Committee’) was updated with the issues that have been referred to the IASB and have not yet been addressed. The Interpretations Committee decided to revisit six issues¹ which include two issues related to *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*. The two issues are as follows:
 - (a) **Issue 1:** how to recognise an impairment loss for a disposal group when the difference between its carrying amount and its fair value less costs to sell exceeds the carrying amount of non-current assets in the disposal group; and
 - (b) **Issue 2:** how to account for the reversal of an impairment loss for a disposal group when the reversal relates to an impairment loss recognised for goodwill.

¹ Two of the six issues are considered in this paper. Appendix A of this paper provides details of the other four issues for information.

2. At the September 2013 meeting, the Interpretations Committee discussed these two issues related to IFRS 5. However, the Interpretations Committee did not reach a consensus on these issues and therefore asked the staff to
 - (a) look at these issues along with other IFRS 5 issues that the IASB had previously considered but not addressed;
 - (b) consult current and former IASB staff and members who were involved with the development of IFRS 5; and
 - (c) analyse the issues discussed using more complex fact patterns that illustrate further the interaction between non-current assets, current assets and liabilities in the disposal group.

3. In response to the request from the Interpretations Committee at its September 2013 meeting as noted above, we are providing the papers to the September 2014 Interpretations Committee meeting as follows:
 - (a) **Agenda Paper 3A**—Summary of the issues and previous discussions at the Interpretations Committee and the IASB
 - (b) **Agenda Paper 3B**—Other IFRS 5 issues that the IASB had previously considered but not addressed;
 - (c) **Agenda Paper 3C**—Feedback from consultations with former IASB staff and members who were involved with the development of IFRS 5;
 - (d) **Agenda Paper 3D**—Further analysis of the issues using more complex fact patterns; and
 - (e) **Agenda paper 3E**—Consideration of next steps

Appendix A—a summary of four issues

A1 The Interpretations Committee, at its July 2012 meeting, decided to revisit six issues that have been referred to the IASB and have not yet been addressed. The two issues related to IFRS 5 are considered in this meeting. The other four issues are summarised as follows.

Issue A: IAS 28 *Investments in Associates*

A2 The issue is whether, in its separate financial statements, an entity should apply the provisions of IAS 36 *Impairment of Assets* or IAS 39 *Financial Instruments: Recognition and Measurement* to test its investments in subsidiaries, joint ventures, and associates carried at cost for impairment.

A3 The Interpretations Committee concluded that in its separate financial statements, an entity should apply the provisions of IAS 36 to test for impairment of its investments in subsidiaries, joint ventures and associates that are carried at cost. In the light of the existing guidance in IFRS, the Interpretations Committee decided not to add the issue to its agenda.

A4 The Interpretations Committee discussed the issue at its meetings in September 2012 and January 2013.

Issue B: IFRS 2 *Share-based Payments*

A5 The issue is to clarify how to classify and measure share-based payment transactions for which the manner of settlement is contingent on either:

- (a) a future event that is outside the control of the entity and/or the counterparty; or
- (b) a future event that is within the control of the counterparty.

A6 With regard to the first sub-issue (ie a future event that is outside the control of the entity and/or the counterparty), the Interpretations Committee noted that IFRS 2 does not provide a clear guidance on this issue and therefore

decided, at its September 2013 meeting, to propose a narrow-scope amendment to the IASB.

A7 The IASB discussed the issue at its February and April 2014 meetings and some IASB members were concerned that the proposed amendment would introduce a principle for distinguishing between a liability and equity that would be inconsistent with the requirements in IAS 32. They also noted that the definition of a liability is being discussed in the Conceptual Framework project. Accordingly, the IASB decided not to propose an amendment to IFRS 2 for this issue.

A8 With regard to the second sub-issue (ie a future event that is within the control of the counterparty), the Interpretations Committee discussed this issue at its meeting in May 2013 and September 2013. The Interpretations Committee noted that this issue is not significantly widespread. Consequently, the Interpretations Committee confirmed the previous decision in January 2010 that it should not add this issue to its agenda.

Issue C: IFRS 2 *Share-based Payments*

A9 The issue is to clarify how to classify a share-based payment transaction in which the entity is required to withhold a specified portion of the shares that would otherwise be issued to the counterparty upon exercise (or vesting) of the share-based payment award in order to settle the counterparty's tax obligation.

A10 At its meeting in March 2013, the Interpretations Committee observed that it is difficult to reach a consensus on whether the portion withheld by the entity in the share-based payment transaction should be classified as cash-settled or equity-settled in the light of the existing requirements in IFRS 2. Consequently, the Interpretations Committee decided to recommend to the IASB that it should amend IFRS 2 in a narrow-scope amendment project by adding specific guidance that addresses limited types of share-based payment transactions with a net settlement feature.

A11 The IASB discussed this issue at its February and April 2014 meetings, and tentatively decided to add an exception to IFRS 2 that would specify the classification of such share-based payments. An exposure draft is to be published.

Issue D: IFRS 2 *Share-based Payments*

A12 The issue is to clarify how to measure and account for a share-based payment in situations in which a cash-settled award is cancelled and is replaced by a new equity-settled award and the replacement award has a higher fair value than the original award.

A13 The Interpretations Committee decided to recommend to the IASB that it should amend IFRS 2 in a narrow-scope amendment project.

A14 The IASB discussed this issue at its February and April 2014 meetings, and tentatively decided to amend IFRS 2 to specify the classification of such share-based payments. An exposure draft is to be published.