

STAFF PAPER

September 2014

IFRS Interpretations Committee Meeting

Project	IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>		
Paper topic	Feedback from consultations with IASB staff and members who were involved with the development of IFRS 5		
CONTACT(S)	Won-Hee Han	whan@ifrs.org	+44 (0)20 7246 6960

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. As mentioned in Agenda Paper 3, the IFRS Interpretations Committee (‘the Interpretations Committee’) discussed two issues relating to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* at its September 2013 meeting. 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 (FVLCTS) 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.
2. The Interpretations Committee did not reach a consensus on these issues and therefore asked the staff to
 - (a) **(Request 1)** look at these issues along with other IFRS 5 issues that the IASB had previously considered but not addressed;

- (b) **(Request 2)** consult current and former IASB staff and members who were involved with the development of IFRS 5; and
 - (c) **(Request 3)** 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. This paper addresses **Request 2** as noted above, by providing a summary of feedback from consultations with IASB staff and members who were involved with the development of IFRS 5.

Feedback from consultations with IASB staff and members who were involved with the development of IFRS 5

4. We have consulted one IASB staff and two former IASB members¹ on the issues (ie Issues 1 and 2) relating to IFRS 5 discussed at the September 2013 Interpretations Committee meeting.

Feedback from consultation with IASB staff

5. The IASB staff we consulted, basically agreed with the staff analysis that was included in the papers presented to the September 2013 Interpretations Committee meeting (ie Agenda Papers 10A and 10B). The IASB staff noted that IFRS 5 was developed to be consistent with IAS 36 *Impairment of Assets*.
6. The staff therefore noted that in the light of IAS 36, paragraphs 15 and 23 of IFRS 5 would not be contradictory, as referred to in Agenda Paper 10A noted above. This is because IAS 36 sets out the principle to measure an impairment loss at recoverable amount; however, it limits this principle by restricting the recognition of impairment loss as referred in paragraphs 105 or 108 of IAS 36. The IASB staff also commented on the issue of ‘unit of account’ which was raised at the September 2013 Interpretations Committee meeting. The IASB staff noted that there is also a tension in IAS 36 between

¹ There are no current IASB members who were involved with the development of IFRS 5.

the concept of ‘one single asset or one single liability’ and that of ‘separate assets and liabilities’ (ie ‘unit of account’ issue²) in terms of measuring the cash-generating unit, similarly in IFRS 5 in terms of measuring the disposal group.

Feedback from consultations with former IASB members

7. One of the two former IASB members (the Former IASB member A) we consulted, noted that when a potential buyer is obliged to acquire the disposal group even if FVLCTS of the disposal group decreases below zero (ie the seller pays the buyer), it would be appropriate to record the disposal group at a negative amount (ie credit balance).
8. The former IASB member A also noted that it would be necessary to identify the type of liability in the disposal group when a FVLCTS of the disposal group declines below zero:
 - (a) there may be a liability in the disposal group that is not directly related to an individual item that is recognised in the financial statements, such as a provision in IAS 37; and
 - (b) another type of liability is the one that is directly related to an individual item that is recognised in the financial statements, such as a retirement obligation in IAS 19 *Employee benefits*.
9. The former IASB member A noted that if a decline of FVLCTS results from the second type of liability (ie a liability that is directly related to an individual item) as noted above, allocating the difference between the carrying amount and FVLCTS of the disposal group to non-current assets may not reflect the principle set out in paragraph 15 of IFRS 5, which is to measure a disposal group at the lower of the carrying amount and FVLCTS. In this sense, the former IASB member A noted that there seems to be a

² Refer to paragraph 32 of Agenda paper 3A for this meeting.

tension between the measurement principle (paragraph 15 of IFRS 5) and the allocation requirement (paragraph 23 of IFRS 5) of IFRS 5.

10. The other former IASB member (the former IASB member B) we consulted, did not agree with the staff analysis for Issue 1 as referred in Agenda Paper 10A for the September 2013 Interpretations Committee meeting, but agreed with the staff analysis for Issue 2 as referred in Agenda Paper 10B for the September 2013 Interpretations Committee meeting.
11. The former IASB member B noted that:
 - (a) paragraph 4 of IFRS 5 states that the disposal group may include any assets and any liabilities of the entity, including current assets, current liabilities and asset excluded by paragraph 5 [of IFRS 5] from the measurement requirements of [IFRS 5]; and
 - (b) paragraph 5 of IFRS 5 does not exclude financial liability.
12. Accordingly, the former IASB member B noted that if a decline of FVLCTS of the disposal group results from a financial liability as in the submitter's example for Issue 1, the financial liability in the disposal group should be measured at fair value and therefore the disposal group would be measured at a negative amount (ie credit balance) in the submitter's case.

Summary and observation

13. On the basis of the feedback from consultations with IASB staff and members, we note that their views can be summarised in the table as follows:

Issue 1		
	Do they agree with the staff analysis that View A (ie limit an impairment loss to non-current assets) is appropriate?	Do they see a potential conflict between paragraphs 15 and 23 of IFRS 5?
IASB staff	agreed	did not see a potential conflict, but

		noted that there is a tension between requirements in terms of ‘unit of account’ issue, which also exists in IAS 36
Former IASB member A	did not provide an explicit view	saw a potential conflict
Former IASB member B	did not agree (and supported an accounting for measuring the disposal group at a negative amount (ie credit balance))	did not see a potential conflict
Issue 2		
	Do they agree with the staff analysis that reversal of a previously impaired goodwill would not recognised until the disposal group is disposed of?	
IASB staff	agreed and noted that there is a tension between requirements in terms of ‘unit of account’ issue, which also exists in IAS 36	
Former IASB member A	agreed but noted that there is a tension between requirements in terms of ‘unit of account’ issue and therefore causes a problem in interpreting IFRS 5	
Former IASB member B	agreed and did not see a potential conflict between requirements in IFRS 5	

14. The feedback on Issue 1 indicates that the views are diverse and only the view of the IASB staff we consulted is consistent with the staff’s view that was expressed in the paper presented for the September 2013 Interpretations Committee meeting. On the other hand, the feedback on Issue 2 indicates that the views of the IASB staff and members we consulted are consistent with the

staff's view that was expressed in the paper presented for the September 2013 Interpretations Committee meeting.

Question for Interpretations Committee

1. Does the Interpretations Committee have any questions or comments on the feedback from our consultations with IASB staff and members?