

STAFF PAPER

July 2015

IASB Meeting

Project	IFRS 12 <i>Disclosure of Interests in Other Entities</i>		
Paper topic	Proposal for an Annual Improvement: clarification of the scope of the disclosure requirements in IFRS 12 <i>Disclosure of Interests in Other Entities</i>		
CONTACT(S)	Takashi Yamagami	tyamagami@ifrs.org	+44 (0)20 7246 6410

This paper has been prepared for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Introduction

1. In May 2015 the IFRS Interpretations Committee (the ‘Interpretations Committee’) discussed a request to clarify various aspects of the requirements in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. One of the issues relates to the interaction of the disclosure requirements between IFRS 5 and IFRS 12 *Disclosure of Interests in Other Entities*. More specifically, the Interpretations Committee discussed whether an entity is required to disclose information relating to interests in other entities within the scope of IFRS 12 when such interests are classified as held for sale in accordance with IFRS 5.
2. As a result of the discussion, the Interpretations Committee noted a concern that the way IFRS 5 and IFRS 12 are written could result in an outcome that the IASB had not intended when it developed IFRS 12. It appears that IFRS 5 and IFRS 12 can be read as implying that an entity does not have to provide disclosures required by IFRS 12 in relation to its interests in other entities that are classified as held for sale, whereas this does not appear to have been the IASB’s intention. Consequently, the Interpretations Committee decided to bring the issue to the attention of the IASB.

3. The purpose of this paper is to discuss whether, and if so how, the concern observed during the Interpretations Committee's meeting relating to the scope of IFRS 12 disclosure requirements can be addressed.

Summary of staff recommendation

4. The staff recommend that the IASB should:
 - (a) clarify the scope of IFRS 12 by specifying that the disclosure requirements in IFRS 12, except for the ones in paragraphs B10–B16, apply to interests that are classified as held for sale or discontinued operations;
 - (b) make this amendment through the 2014–2016 cycle of Annual Improvements; and
 - (c) require the retrospective application of the proposed amendment, with an option to apply it early.

Structure of this paper

5. This paper is structured as follows:
 - (a) background (paragraphs 6–11);
 - (b) staff analysis and recommendation (paragraphs 12–27);
 - (c) due process steps (paragraphs 28–32);
 - (d) Appendix A—Agenda criteria assessment; and
 - (e) Appendix B—Actions taken to meet the due process requirements.

Background

Issue raised

6. Paragraph 5B of IFRS 5 states that IFRS 5 specifies the disclosure requirements in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, and that the disclosure requirements in other IFRSs do not apply to such assets unless:
 - (a) other IFRSs require specific disclosures in respect of such assets; or
 - (b) other IFRSs require disclosures about the measurement of assets or liabilities within a disposal group that are outside the scope of the measurement requirements of IFRS 5.
7. The issue relates to the interaction of the disclosure requirements noted in paragraph 6 and the disclosure requirements in IFRS 12. Paragraph B17 of IFRS 12 states that the disclosure requirements of paragraphs B10–B16 do not apply to the interests within the scope of IFRS 12 that are classified as held for sale in accordance with IFRS 5.
8. The concern raised is that in the light of the disclosure requirements in these two Standards, it is not clear whether the disclosure requirements of IFRS 12, other than those in paragraphs B10–B16, should apply to such interests.
9. The submitter notes that there could be two views on this issue as follows:
 - (a) View 1—the disclosure requirements in IFRS 12 apply to such interests, because paragraph B17 excludes only the requirements in paragraphs B10–B16 and nothing else; or
 - (b) View 2—the disclosure requirements in IFRS 12 do not apply to such interests, because IFRS 12 does not include any specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations in accordance with IFRS 5.

The Interpretations Committee's discussion and conclusion

10. The Interpretations Committee discussed this issue at its meeting in May 2015. Its discussion can be summarised as follows:
- (a) when IFRS 12 is read in isolation, it implies that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, would apply to interests within the scope of IFRS 12 that are classified as held for sale (ie View 1); however,
 - (b) the Interpretations Committee noted that even if this was what the IASB intended when it issued IFRS 12, paragraph 5B of IFRS 5 is clear and IFRS 12 does not include a reference to IFRS 5 in relation to any other specific IFRS 12 disclosure requirements; and therefore
 - (c) the Interpretations Committee was concerned that when IFRS 5 and IFRS 12 are read together, the IFRS 12 disclosure requirements would not be applicable to interests that are classified as held for sale, and yet this does not appear to be the IASB's intent.
11. Consequently, the Interpretations Committee thought that it should bring this issue to the attention of the IASB, and ask the IASB whether it thought that it would be necessary to clarify the scope of IFRS 12.

Staff analysis and recommendation

12. We think that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, should apply to interests in other entities even when the interests are classified as held for sale. This is because we are of the view that the information required by IFRS 12 is relevant regardless of whether or not an entity classifies its interests in other entities as held for sale or discontinued operations.
13. One of the disclosure objectives of IFRS 12 is to provide useful information in evaluating the nature of, and the risks associated with, an entity's interests in other

entities.¹ Existence of risks associated with interests in other entities does not automatically disappear when an entity classifies its interests in other entities as held for sale. Consequently, we think that the disclosure objective of IFRS 12 is relevant to interests in other entities, regardless of whether they are classified as held for sale or not.

14. We note that this thinking is consistent with some of the requirements in IFRS 12. Paragraph 25 of IFRS 12 requires an entity to disclose information about an entity's exposure to risks from involvement that it *had* with an unconsolidated structured entity. This requirement applies even if the entity no longer has any contractual involvement with the structured entity at the reporting date. If an entity does not have to provide information about the risks associated with interests in an unstructured entity, because the interests are classified as held for sale, it would not be consistent with the disclosure requirements in paragraph 25. This is because paragraph 25 requires disclosure even after a disposal of the interests.
15. In addition to requiring information about the nature and risks associated with interests in other entities, IFRS 12 requires disclosing information that is useful in evaluating the effects of those interests on an entity's financial statements.² We think that this objective can also be relevant regardless of whether interests in other entities are classified as held for sale or discontinued operations.
16. One example of the disclosure requirements in respect of this objective is the requirement of information about the gain or loss, if any, when an entity disposes of its interests in a subsidiary that leads to a loss of control.³ We think that this information is relevant regardless of whether or not the disposal of the subsidiary meets the definition of a discontinued operation in accordance with IFRS 5.⁴ However, if View 2 is taken, an entity would not have to disclose this information

¹ See paragraph 1(a) of IFRS 12.

² See paragraph 1(b) of IFRS 12.

³ See paragraph 19 of IFRS 12.

⁴ We think that the effect of the disposal involving a discontinued operation would be more significant and thus it warrants a disclosure. This is because part of the definition of a discontinued operation is a disposal group being a separate major line of business or geographical area of operations.

if a subsidiary that it disposed of meets the definition of a discontinued operation. This is because paragraph 19 of IFRS 12 does not have a specific reference to a discontinued operation. We are of the view that such an interpretation of these Standards would lead to a loss of important information.

17. On the basis of this analysis, we are of the view that the disclosure of information required by IFRS 12 in respect of interests in other entities could be relevant to users, regardless of whether or not such interests are classified as held for sale or discontinued operations. We think that this is consistent with what we think the IASB intended when it issued IFRS 12. We provide further analysis on this aspect in the following paragraphs.

What was the IASB's intention?

18. We think that the IASB's intention was that the IFRS 12 disclosure requirements, except for those in paragraphs B10–B16, would apply to interests that are classified as held for sale. This is because IFRS 12 specifies limited disclosure exemptions for such interests.
19. We note that the fact that there are certain disclosure exemptions in IFRS 12 for held-for-sale interests suggests that the IASB did consider the applicability of the IFRS 12 disclosure requirements in relation to such interests. After such a consideration, the IASB decided to provide only certain disclosure exemptions (ie in relation to summarised financial information) for such interests. We understand this to mean that the IASB intended for the rest of the disclosure requirements in IFRS 12 to apply to interests that are classified as held for sale.
20. However, the IASB's intention (as we understand it) does not interact well with the disclosure scope prescribed in paragraph 5B of IFRS 5, but we believe that this is merely an unintended consequence that the IASB did not envisage when it issued IFRS 12. This is because if the IASB's intention was that IFRS 12 does not apply to interests that are classified as held for sale, it would not have needed to give the scope exception for paragraphs B10–B16.

Staff conclusion and recommendation

21. On the basis of this analysis, we are of the view that information required in IFRS 12 can be relevant to interests in other entities, regardless of whether or not such interests are classified as held for sale or discontinued operations. We also believe that this is consistent with what we think the IASB intended when it issued IFRS 12. Consequently, we recommend that the IASB should clarify the scope of IFRS 12 by specifying that the disclosure requirements in IFRS 12, except for those in paragraphs B10–B16, do apply to interests that are classified as held for sale or discontinued operations.

Agenda criteria assessment

22. In Appendix A of this paper we have summarised the assessment of the issue against the Interpretations Committee agenda criteria.⁵ The conclusion of this assessment is that the scope of the IFRS 12 disclosure requirements should be clarified through an Annual Improvement.
23. At its May meeting, the IASB gave staff a permission to commence the balloting process for the Exposure Draft *Annual Improvements to IFRS 2014–2016 Cycle* (the ‘Annual Improvement ED’).⁶ Considering that the balloting process on the Annual Improvement ED has not started yet, we recommend that the IASB should include the proposed amendment presented in this Staff Paper in the Annual Improvement ED.

Transition provisions

24. We suggest that the proposed amendment to IFRS 12 should be applied retrospectively, because:
- (a) We do not think that the retrospective application of the proposed amendment is onerous, because an entity would likely have information

⁵ These criteria can be found in the IFRS Foundation [Due Process Handbook](#).

⁶ See [Agenda Paper 12A](#) for the IASB’s meeting in May 2015.

necessary to provide the disclosure of information with respect to interests that are classified as held for sale or discontinued operations. These disclosures would already have been given prior to the classification of interests in other entities as held for sale.

- (b) The proposed amendment merely clarifies the scope of IFRS 12, rather than introducing new disclosure of information.

25. We propose that earlier application should be permitted.

First-time adopters

26. We think that a first-time adopter should apply the amendment to IFRS 12 at the date of transition to IFRS. In this respect, we have considered but concluded that a clarifying amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* is not necessary.

Consequential amendments

27. We have not identified any consequential amendments to other Standards that would be necessary as a result of this proposed amendment.

Questions for the IASB

1. Does the IASB agree with the staff recommendation that it should clarify the scope of IFRS 12 by specifying that the disclosure requirements in IFRS 12, except for the ones in paragraphs B10–B16, do apply to interests that are classified as held for sale or discontinued operations?
2. If the answer to the Question 1 is yes, does the IASB agree with the staff recommendation that such a clarification should be made through the Annual Improvement ED?
3. Does the IASB agree with the staff recommendation that the proposed amendment should be applied retrospectively? Does the IASB agree that earlier application should be permitted?

Due process steps⁷

Intention to dissent

28. In accordance with paragraph 6.23 of the IFRS Foundation [Due Process Handbook](#), we are also formally asking whether any IASB member intends to dissent to the proposed amendment.

Question for IASB members

4. Do any IASB members intend to dissent to the proposed amendments that is to be included in the Annual Improvement ED?

Comment period

29. At its meeting in May 2015, the IASB agreed to publish the Annual Improvement ED with a comment period of 90 days. Considering the nature of the proposed amendment presented in this Staff Paper, we believe that its addition to the Annual Improvement ED does not warrant a longer comment period. Consequently, we recommend that the IASB should retain its decision to publish the Annual Improvement ED with the comment period of 90 days.

Proposed timetable for balloting and publication

30. We expect the balloting process of the Annual Improvement ED to commence in August 2015, with its publication scheduled during the fourth quarter of 2015.

Confirmation of due process steps

31. In Appendix B of this paper we have summarised the due process steps followed by the IASB in developing the Annual Improvement ED, including confirmation

⁷ The rest of the paper is relevant if the IASB agrees with the proposed amendment and that the amendment should be made through the Annual Improvement ED.

that the proposed amendment meets the criteria for an annual improvement.⁸ In summarising these steps, and thereby demonstrating that the IASB has met all the due process requirements to date, we used the reporting template ‘Development and publication of Annual Improvements Exposure Drafts’ from the [Due Process Protocol](#).

32. We note that the required due process steps applicable so far at this stage have been completed. We think that the completion of these steps support the publication of the Annual Improvement ED.

Questions for the IASB

Questions for the IASB

5. Does the IASB agree that it should retain its decision to publish the Annual Improvement ED with a comment period of 90 days?
6. Do IASB members agree with the proposed timetable for publication and give the staff permission to start the balloting process, including the additional proposed amendment presented in this Staff Paper?
7. Are IASB members satisfied that all due process steps required to date that relate to the publication of the Annual Improvement ED, including the additional proposed amendment presented in this Staff Paper, have been complied with?

⁸ We summarised actions undertaken only in relation to the additional proposed amendment presented in this Staff Paper for inclusion in the Annual Improvement ED. The actions undertaken for the other two issues that were approved for inclusion in the Annual Improvement ED can be found in [Agenda Paper 12A](#) for the IASB’s meeting in May 2015.

Appendix A—Agenda criteria assessment

A1. The following table sets out the assessment of the proposed amendment against the Interpretations Committee agenda criteria.⁹

Agenda criteria	
<p>We should address issues (5.16):</p> <p>that have widespread effect and have, or are expected to have, a material effect on those affected.</p>	<p><u>Met.</u></p> <p>IFRS 12 is widely applied because many companies have interests in other entities. The issue can have a material effect on those affected when interests in other entities that are classified as held for sale represent a significant portion of an entity.</p>
<p>where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods.</p>	<p><u>Met.</u></p> <p>We think that clarifying the scope of IFRS 12 to specifically include within its scope interests classified as held for sale or discontinued operations would lead to the consistent application of the Standard, regardless of their classification. We think that this in turn leads to the provision of important and useful information by preparers.</p>
<p>that can be resolved efficiently within the confines of existing Standards and the <i>Conceptual Framework for Financial Reporting</i>.</p>	<p><u>Met.</u></p> <p>The proposed amendment can resolve the issue efficiently within the confines of existing Standards because it relates to only the clarification of the scope of IFRS 12 disclosure requirements.</p>
<p>Is the issue sufficiently narrow in scope that the Interpretations Committee can address it in an efficient manner, but not so narrow that it is not cost-effective for it to undertake the due process that would be required when making changes to IFRS (5.17)?</p>	<p><u>Met.</u></p> <p>The proposed amendment can resolve the issue efficiently within the confines of existing Standards because it relates to only the clarification of the scope of IFRS 12 disclosure requirements.</p>
<p>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).</p>	<p><u>Met.</u></p> <p>The issue does not relate to any of the current or planned IASB projects.</p>
<p>In addition to the implementation and maintenance criteria, an annual improvement should (6.11, 6.12):</p>	

⁹ These criteria can be found in the IFRS Foundation [Due Process Handbook](#).

Agenda criteria

<p>Replace unclear wording; Provide missing guidance; or Correct minor unintended consequences, oversights or conflict.</p>	<p><u>Met.</u> The proposed amendment is intended to provide clarification to the scope of the IFRS 12 disclosure requirements.</p>
<p>Not change an existing principle or propose a new principle.</p>	<p><u>Met.</u> The proposed amendment does not change an existing principle, nor does it relate to a new principle.</p>
<p>Not be so fundamental that the IASB will have to meet several times to conclude (6.14).</p>	<p><u>Met.</u> The proposed amendment is merely in response to an unintended consequence, so it will not be so fundamental that the IASB will have to meet several times to conclude.</p>

Appendix B—Actions taken to meet the due process requirements

B1. The following table sets out the actions taken by the IASB to meet the due process requirements required.¹⁰

Development and publication of Annual Improvements Exposure Drafts

<i>Step</i>	<i>Required/optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
The IASB's and the Interpretations Committee's meetings are held in public, with papers being available for observers. All decisions are made in a public session.	Required	Meetings held. Project website contains a full description with up-to-date information. Meeting papers posted in a timely fashion.	The issue was discussed by the Interpretations Committee at a public meeting in May 2015. We created and updated a project page for this project after every Interpretations Committee meeting in which the issue proposed for inclusion in Annual Improvements was discussed. Agenda Papers were posted on the IASB website before every Interpretations Committee or IASB meeting. The IASB plans to discuss and decide whether to approve the issue for inclusion in the Annual Improvement ED at its July 2015 meetings.
Finalisation			
Due process steps are reviewed by the IASB.	Required	Summary of all the due process steps have been discussed by the IASB before an Exposure Draft is published.	In this Staff Paper we are demonstrating that all the required due process steps applicable to date have been performed.
A check is performed to ensure that each amendment included in the package meets the Annual Improvements criteria.	Required		This Staff Paper contains an assessment of the proposed amendment against the Annual Improvements criteria.
The Exposure Draft has an appropriate	Required	The period has been set by the IASB. If outside the normal	In accordance with the IFRS Foundation Due Process Handbook , we are proposing a comment period of 90

¹⁰ In the table, we summarised actions undertaken only in relation to the additional issue proposed for inclusion in the Annual Improvement ED. The actions undertaken for the other two issues that were approved for inclusion in the Annual Improvement ED can be found in [Agenda Paper 12A](#) for the IASB's meeting in May 2015.

comment period.		comment period, an explanation from the IASB to the DPOC has been provided, and the decision has been approved.	days.
Drafting			
Drafting quality assurance steps are adequate.	Required	The Translations team has been included in the review process.	To be done in due course.
Drafting quality assurance steps are adequate.	Required	The XBRL team has been included in the review process.	To be done in due course
Drafting quality assurance steps are adequate.	Optional	External reviewers have reviewed drafts for editorial review and the comments have been collected and considered by the IASB.	To be done in due course.
Drafting quality assurance steps are adequate.	Optional	Drafts for editorial review have been made available to members of the International Forum of Accounting Standard Setters (IFASS) and the comments have been collected and considered by the IASB.	To be done in due course.
Publication			
Exposure Draft <i>Annual Improvements to IFRS 2014–2016 Cycle</i> published.	Required	Exposure Draft posted on the IASB website.	The Exposure Draft will be posted on the IFRS Foundation website when published.
Press release to announce the publication of the Exposure Draft <i>Annual Improvements to IFRS 2014–2016 Cycle</i> .	Required	Press release published. Media coverage of the release.	The press release will be posted on the IFRS Foundation website when the Exposure Draft is published.