STAFF PAPER

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IFRS Interpretations Committee Meeting

Project	**IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***
Paper topic	New issues

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Introduction

1. The purpose of this paper is to provide the IFRS Interpretations Committee with a summary of new issues relating to application of IFRS 5 *Non–current Assets Held for Sale and Discontinued Operations*, that we became aware after its meeting in November 2014. These issues were raised through the correspondence from a stakeholder, which is attached to this paper as Appendix A—Correspondence relating to IFRS 5 issues.

2. The new issues relate to the following aspects of IFRS 5

   (a) impairment;

   (b) changes to a plan of sale;

   (c) presentation of discontinued operations; and

   (d) disclosure.

3. We plan to present a staff analysis on these issues at a future meeting.

Summary of the issues

Issue 1: Allocation of impairment loss to a disposal group

4. This issue relates to whether an impairment loss on a disposal group should be allocated to an asset included in the disposal group to the extent that it reduces the carrying amount of the asset below its fair value less costs to sell. The stakeholder notes that paragraph 23 of IFRS 5 refers only to the order of allocation set out in paragraphs 104 and 122 of IAS 36 *Impairment of Assets*. However, the stakeholder has observed that in practice both paragraphs 104 and 105 are considered applicable by some. Paragraph 105 of IAS 36 relates to the extent of an impairment loss an entity can allocate to an asset. Therefore, application of paragraph 105 of IAS 36 to the case concerned would mean that any loss allocation to the assets within the measurement scope of IFRS 5 is restricted by the fair value of those assets to which the loss is allocated.

Issue 2: Changes to a plan of sale

5. This issue relates to paragraph 28 of IFRS 5, which states that:

> Financial statements for the periods since classification as held for sale shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate.

6. The stakeholder notes that an issue arises when a disposal group consists both of subsidiaries, joint operations, joint ventures and/or associates, and other non-current assets. It notes that in this case a literal reading of paragraph 28 seems to suggest that the effect of re-measurement on different parts of the disposal group is reflected in different periods. That is, the effect of re-measurement regarding a subsidiary, for example, should be reflected in comparative periods by restatement while the effect of re-measurement regarding other non-current assets impacts only the current period. The stakeholder is of the view that reflecting the re-measurement effect of different assets within the same disposal group in different periods is counterintuitive.

7. Furthermore, it notes that the phrase "amended accordingly" in paragraph 28 is not clear on whether it refers only to measurement, or also to presentation. Nor is it clear if/how paragraph 40 applies; paragraph 40 prevents reclassification or re-presentation of amounts for non-current assets (or disposal group) classified as held for sale, in the statements of financial position for prior periods.

Issue 3: Elimination of transactions between continuing and discontinued operations

8. This issue relates to the presentation of a discontinued operation in accordance with IFRS 5. The issue is how to deal with significant transactions between the continuing operations and the discontinued operations. Specifically, the issue is about whether there should be no elimination of transactions between the continuing operations and the discontineud operations (ie an 'as if' presentation) or there should be the same elimination as required under IFRS 10. The stakeholder said that the practice is mixed with respect to this issue.

9. We also note that another stakeholder raised the same concern. A summary of the illustration of the issue from the stakeholder, with our modifications for anonymity, is included in this paper as Appendix B—Illustration of the issue relating to elimination between continuing operations and discontinued operations.

Issue 4: Applicability of disclosure requirements by IFRS 12 to investments classified as held for sale

10. This issue relates to disclosure requirements of IFRS 5. The stakeholder notes that paragraph 5B of IFRS 5 clarifies that disclosure requirements in other IFRSs do not apply to assets held for sale and discontinued operations unless those IFRSs require:

    (a) specific disclosures for such items; or

(b) disclosures about measurement of assets or liabilities outside the scope of the measurement requirements of IFRS 5.

11. It also notes that paragraph B17 of IFRS 12 clarifies that the requirements of paragraphs B10-B16 do not apply to investments within the scope of IFRS 12 that are classified as held for sale according to IFRS 5. In the light of the disclosure requirements in these two standards, the stakeholder expressed a concern that it is not clear on whether the disclosure requirements of IFRS 12, other than those in paragraphs B10-B16, should apply to such investments. It noted possible interpretations would be that:

    (a) IFRS 12 does apply to such investments because paragraph B17 excludes only requirements in paragraphs B10‑B16, and nothing else; or

    (b) IFRS 12 does not apply to such investments because it does not include specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations as described in paragraph 5B in IFRS 5.

Appendix A—Correspondence relating to IFRS 5 issues

A1 The following represents a part of the correspondence from a stakeholder, describing IFRS 5 related issues that the stakeholder has encountered.

1. *Allocation of impairment on disposal groups*

   If an impairment loss is determined for a disposal group on initial held for sale classification, the question is if the allocation of the impairment loss should rely on the allocation approach of paragraph 105 of IAS 36, or if the carrying amount of an asset included in the disposal group may be reduced below its fair value less cost to sell? Paragraph 23 of IFRS 5 refers only to the order of allocation set out in paragraph 104 of IAS 36. However, we have observed that in practice both paragraphs 104 and 105 are considered applicable by some, and therefore any loss allocation to the assets within the measurement scope of IFRS 5 is restricted by the fair value of the asset to which the loss is allocated. In our view, this issue regards the underlying measurement principle of IFRS 5, and requires further clarification to allow for consistency in practice.

2. *Changes to a plan of sale*

   Effective January 1st, 2013, paragraph 28 of IFRS 5 was amended to clarify that *"Financial statements for the periods since classification as held for sale shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate."*

   For other non-current assets ceasing to be classified as held for sale, the effect of the measurement adjustment shall be recognised in profit or loss in the current period. In certain instances, a change to a plan of sale may regard a disposal group including both subsidiaries, joint operations, joint ventures and/or associates, and other non-current assets. In that case, a literal reading of paragraph 28 suggests that the effect of re-measurement of part of the disposal group (subsidiaries, joints operations, joint ventures, and associates) shall be reflected in comparative periods by restating those, while the effect of re-measurement of other parts of the disposal group (other non-current assets) shall only impact the current period. However, in our opinion, reflecting the re-measurement effect of different assets within the same disposal group in different periods, is counterintuitive.

   Furthermore, when paragraph 28 refers to the financial statements for previous periods being "amended accordingly", it is unclear if that refers only to measurement, or also to presentation. In other words, it is unclear if the subsidiaries, joint operations, joint ventures and associates classified as held for sale in previous periods, but no longer in the current period, shall continue to be presented as held for sale in the comparatives, or if paragraph 40 applies by analogy.

   On these two aspects of paragraph 28, we believe the guidance provided is not sufficiently clear to allow for consistent application.

3. *Elimination of transactions between continuing and discontinued operations*

   Practice is mixed with respect to how transactions between continuing and discontinued operations are treated. Some eliminate without any adjustments, others eliminate, but make adjustments to reflect how transactions between continuing or discontinued operations will be reflected in continuing operations going forward, while others again do not eliminate such transactions. The Standard itself does address if and how to reflect the impact of transactions between continuing and discontinued operations, but some believe that paragraph 30 of IFRS 5 requires adjustments to reflect the anticipated impact of the disposal at the face of the income statement (as opposed to providing additional information in the notes). In our view, this issue regards the underlying concept of IFRS 5 – more specifically, whether the purpose of the Standard is to present information regarding discontinued operations on an "as if" basis.

4. *Applicability of IFRS 12 disclosure requirements to held for sale investments*

   Paragraph 5B of IFRS 5 clarifies that disclosure requirements in other IFRSs do not apply to assets held for sale and discontinued operations unless (1) those IFRSs require specific disclosures for assets held for sale or discontinued operations or (2) those IFRSs require disclosures about measurement of assets or liabilities outside the scope of the measurement provisions of IFRS 5. Paragraph B17 of IFRS 12 clarifies that the requirements of paragraphs B10-B16 do not apply to investments within the scope of IFRS 12 classified as held for sale under IFRS 5. However, it is rather unclear if the other disclosure requirements of IFRS 12 apply to such investments. One possible interpretation is that paragraph B17 clarifies that the other disclosure requirements of the Standard applies, while another interpretation is that the IFRS 12 does not include *"(…) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; (…)"* as per paragraph 5B in IFRS 5, and thus that the disclosure requirements of IFRS 12 are not applicable.

   Based on our observations, this apparent inconsistency between the two standards may create mixed practices, and we therefore believe a clarification is required. Even though we acknowledge that one option is to clarify by amending IFRS 5, we believe it is more appropriate to consider revising IFRS 12. This is because we are not aware of similar inconsistencies between paragraph 5B in IFRS 5 and other standards.

Appendix B—Illustration of the issue relating to elimination between continuing operations and discontinued operations

B1 This appendix is based on information received from a stakeholder, who raised concerns about this issue.

Fact pattern

B2 This issue deals with the presentation of continuing and discontinued operations in a situation where there have been substantial intercompany transactions between the two business areas, and where the transactions will continue after the disposal of the discontinued operations.

B3 Entity X operates in the clothing industry. Entity X owns Entity Y, which makes fabric and also owns Entity Z, which makes clothes. Entity Z buys fabric from Entity Y, and uses the fabric to manufacture clothes. Consequently, there have been substantial intercompany transactions between the two business areas.

B4 The fabric manufacturing business (ie Entity Y) was sold to a third party as of 30 November 20X3. Consequently, Entity X's financial statement of 20X3 classifies and presents the fabric manufacturing business as discontinued operations. The comparative figures for 20X2 have been restated. At the time of the sale of the fabric business, Entity Z agreed to continue to buy fabric from Entity Y.

B5 The following figures represents the results of operations of Entity Y and Entity Z on a stand-alone basis as well as the group total. Note that Entity Z's cost of goods sold includes costs of CU300[1] relating to purchases from third parties and CU1,300 relating to purchases from Entity Y.

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

Group consolidation:				
(Unit: CU)	Entity Y	Entity Z	Elimination	Group
Revenue	1,950	2,250	1,950	2,250
Cost of goods sold	1,500	2,400	1,950	1,950
Operating profit/loss	450	-150	0	300

Possible presentation methods

B6 The stakeholder describes three possible methods of presenting the discontinued operations in the fact pattern as follows:

(a) full elimination against the continuing and discontinued operations;

(b) elimination only against the discontinued operations; and

(c) no elimination.

B7 This appendix does not consider the validity of these presentations in the context of IFRS requirements.

Method 1–Full elimination against the continuing and discontinued operations

B8 One possible way to present continuing operations and discontinued operations in relation to the given fact pattern is to eliminate all intercompany transactions so that only income and expenses from transactions with external parties are presented on the face of the income statement.

Method 1			
(Unit: CU)	Entity Y	Entity Z	Group
Revenue	0	2,250	2,250
Cost of goods sold	1,500	450	450
Operating profit/loss	-1,500	1,800	1,800
Loss from discontinued operations			-1,500
Profit for the year			300

Method 2–Elimination only against the discontinued operations

B9 The following represents another possible method of presenting the results of operations.

Method 2 **(Unit: CU)**	Entity Y	Entity Z	Group
Revenue	0	2,250	2,250
Cost of goods sold	-450	2,400	2,400
Operating profit/loss	450	-150	-150
Profit from discontinued operations			450
Profit for the year			300

B10 This method involves elimination of the effects of all the intercompany transactions only against the discontinued operations. This method tries to achieve an 'as-if presentation' of the continuing operations. That is, it depicts expected effects of future transactions between Entity Y and Entity Z.

Method 3–No elimination

B11 Yet, another possible method of presenting the results of operations is as follows:

Method 3 **(Unit: CU)**	Entity Y	Entity Z	Group
Revenue	1,950	2,250	2,250
Cost of goods sold	1,500	2,400	2,400
Operating profit/loss	450	-150	-150
Profit from discontinued operations			450
Profit for the year			300

B12 This method does not involve any elimination against either Entity Y or Entity Z. Note that this method of presentation does not change the consolidated profit for the year, compared with the method 2. Therefore, this method also tries to achieve an 'as-if presentation' of the continuing operations.