STAFF PAPER

May 2015

IFRS Interpretations Committee Meeting

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

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Introduction

1. The IFRS Interpretations Committee ('the Interpretations Committee') received a request to clarify the accounting treatment in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* related to the scope of the held-for-sale classification. The Interpretations Committee discussed this issue over the last few meetings. At its meeting in March 2015, the Interpretations Committee concluded that it is important for it to better understand the objective of the scope of IFRS 5 so that it can then decide whether the issue can be addressed through an Interpretation or whether a broader reconsideration of IFRS 5 would be necessary (ie Issue 1 in paragraph 3).

2. In addition, the Interpretations Committee received a request to clarify various aspects of the IFRS 5 requirements relating to measurement, presentation and disclosure (ie Issues 2–5 in paragraph 3).

3. At this meeting, we are planning to discuss the following issues relating to IFRS 5:

   (a) Issue 1—the scope of the held-for-sale classification;

(b) Issue 2—how to present intragroup transactions between continuing and discontinued operation;

(c) Issue 3—applicability of the disclosure requirements in IFRS 12 *Disclosure of Interests in Other Entities* to a subsidiary classified as held for sale;

(d) Issue 4—to what extent an impairment loss can be allocated to non-current assets within a disposal group; and

(e) Issue 5—how to apply the presentation requirements, in the case of a change to a plan, to a disposal group that consists of both a subsidiary and other non-current assets when there has been a change to a plan.

4. This paper consists of:

(a) the summary of the papers for this meeting;

(b) Appendix A—Summary of the issues relating to IFRS 5 that the Interpretations Committee previously discussed, was informed of, or plans to discuss at this meeting; and

(c) Appendix B—Submission.[1]

Papers for this meeting

5. The papers relating to the issues of IFRS 5 that we would like to discuss at this meeting are summarised in the following table.

Agenda Paper	Issue addressed	Category of the issue	The staff's recommendation for the Interpretations Committee
3A	Scope of the held-for-sale classification.	Scope	The Interpretations Committee should bring the issue to the attention of the IASB and ask whether the IASB agrees with its conclusion on the issue, and if

[1] The Submission was previously presented to the Interpretations Committee as Appendix A in Agenda Paper 9B for the Interpretations Committee's meeting in March 2015.

Agenda Paper	Issue addressed	Category of the issue	The staff's recommendation for the Interpretations Committee
			so, whether the IASB would like us to address the issue further.
3B	How to present intragroup transactions between continuing and discontinued operations.	Presentation	The Interpretations Committee should bring the issue to the attention of the IASB.
3C	Applicability of the disclosure requirements in IFRS 12 to a subsidiary classified as held for sale.	Disclosure	The Interpretations Committee should not take the issue to its agenda, because there is no evidence indicating that the issue is common or that there is diversity in practice (Agenda decision).
3D	To what extent an impairment loss can be allocated to non-current assets within a disposal group.	Measurement	The Interpretations Committee should consider this issue, along with other measurement issues relating to IFRS 5.
3E	How to apply presentation requirements, in the case of a change to a plan, to a disposal group that consists of both a subsidiary and other non-current assets.	Presentation	The Interpretations Committee should not take the issue to its agenda, because there is no evidence indicating that the issue is common or that there is significant diversity in practice (Agenda decision).

Appendix A—Summary of the issues relating to IFRS 5 that the Interpretations Committee previously discussed, was informed of, or plans to discuss at this meeting

A1 The following table summarises the issues relating to IFRS 5 that the Interpretations Committee previously discussed, was informed of or that are to be discussed at this meeting.

Issue	Title of the issue	Category of the issue	Interpretations Committee's discussions in	Result of the discussions
A	Impairment of 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.	Measurement	July and September 2009, September 2013 and September 2014	The Interpretations Committee did not reach a consensus on this issue, while noting that there were differing views among its members.
B	Reversal of an impairment relating to goodwill in a disposal group.	Measurement	March and May 2010, and September 2013	The Interpretations Committee did not reach a consensus on this issue, while noting that there were differing views among its members.
C	Definition of discontinued operation and disclosures.	Presentation	September 2014	The Interpretations Committee was informed of the previous discussions relating to this issue.
D	Presentation of other comprehensive income (OCI) items for discontinued operations.	Presentation	September 2014	The Interpretations Committee was informed of the previous discussions relating to this issue.
E	The scope of the held-for-sale classification.	Scope	November 2014, March 2015, and to be	Pending discussion at this meeting (see Agenda Paper 3A).

Issue	Title of the issue	Category of the issue	Interpretations Committee's discussions in	Result of the discussions
			discussed at this meeting	
F	Accounting for a disposal group consisting mainly of financial instruments.	Scope	March 2015	The Interpretations Committee noted that this issue could be considered along with other measurement issues (Issues A and B).
G	How to apply 'major line of business' in presenting discontinued operations.	Presentation	March 2015	The Interpretations Committee noted that this issue could be considered along with the disclosure and presentation issues that it had considered (Issues C and D).
H	How to present intragroup transactions between continuing and discontinued operations.	Presentation	To be discussed at this meeting	Pending discussion at this meeting (see Agenda Paper 3B).
I	Applicability of the disclosure requirements in IFRS 12 to a subsidiary classified as held for sale.	Disclosure	To be discussed at this meeting	Pending discussion at this meeting (see Agenda Paper 3C).
J	To what extent an impairment loss can be allocated to non-current assets within a disposal group.	Measurement	To be discussed at this meeting	Pending discussion at this meeting (see Agenda Paper 3D).
K	How to apply the presentation requirements, in	Presentation	To be discussed at this meeting	Pending discussion at this meeting (see Agenda

Issue	Title of the issue	Category of the issue	Interpretations Committee's discussions in	Result of the discussions
	the case of a change to a plan, to a disposal group that consists of both a subsidiary and other non-current assets when there has been a change to a plan.			Paper 3E).

Summary of the issues by category

Scope

Issue E: the scope of the held-for-sale classification

A2 This issue relates to whether certain types of loss of control, besides loss of control through outright sale, can result in held-for-sale classification. Specifically, the Interpretations Committee discussed the following cases at its meeting in November 2014:

(a) Case 1—loss of control of a subsidiary due to dilution of the shares held by the entity;

(b) Case 2—loss of control of a subsidiary due to call options held by a non-controlling shareholder; and

(c) Case 3—loss of control of a subsidiary due to modification of the shareholders' agreement.

A3 As a result of the discussion, the Interpretations Committee asked the staff to consider the broader question of whether 'loss of control' is key to the inclusion of an event within the scope of IFRS 5, or whether there also needs to be a disposal in order for the event to be classified as held for sale.

A4 At its meeting in March 2015, the Interpretations Committee discussed the analysis included in the staff paper aimed to address this question.[2] As a result of the discussion, the Interpretations Committee concluded that it is important for the Interpretations Committee to better understand the objective of the scope of IFRS 5 so that it can then decide whether the issue can be addressed through an Interpretation or whether a broader amendment to IFRS 5 would be necessary.

A5 This issue is to be discussed at this meeting (see Agenda Paper 3A).

Issue F: accounting for a disposal group consisting mainly of financial instruments

A6 This issue is about whether IFRS 5 applies to a disposal group that consists mainly, or entirely, of financial instruments. The submitter thinks that this issue is particularly relevant if it is expected that the disposal group will be sold at a loss (ie its fair value is lower than its carrying amount). The submitter states that in such situations, applying the requirement in paragraph 5 of IFRS 5 would imply that the loss is recognised only when the sale effectively occurs; this conflicts with the measurement principles set out in IFRS 5 for disposal groups that require measurement at fair value less costs to sell at the date of a 'disposal group' classification.

A7 The Interpretations Committee discussed this issue at its meeting in March 2015. As a result of the discussion, the Interpretations Committee noted that such a disposal group would meet the held-for-sale classification requirements that are set out in IFRS 5. However, the Interpretations Committee noted that the question about the measurement of such a disposal group is another example of the IFRS 5 measurement challenges that it had considered in the September 2014 meeting (Issue A in this appendix). Consequently, the Interpretations Committee noted that this issue could be considered along with other measurement issues that it had considered previously (Issue A and Issue B in this Appendix).

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[2] See Agenda Paper 9 for the Interpretations Committee's meeting in March 2015.

Measurement

Issue A: impairment of 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

A8 This issue relates to a situation in which the difference between the carrying amount and the fair value less costs to sell of a disposal group exceeds the carrying amount of non-current assets in the disposal group. The following are the alternative views with respect to this issue, which were identified by the submitter and discussed by the Interpretations Committee:

(a) View A—limit an impairment loss to non-current assets that are within the scope of the measurement requirements of IFRS 5;

(b) View B—limit an impairment loss to the net assets of a disposal group;

(c) View C—limit an impairment loss to the total assets of a disposal group; and

(d) 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 its fair value less costs to sell.

A9 The Interpretations Committee discussed this issue four times in July and November 2009, September 2013 and September 2014. As a result of the discussion, the Interpretations Committee could not reach a consensus on this issue, noting that there were differing views among the Interpretations Committee members.

Issue B: reversal of an impairment relating to goodwill in a disposal group

A10 This issue relates to a situation in which an impairment loss recorded for a disposal group that is classified as held for sale subsequently reverses. Specifically, the question focuses on whether an impairment loss relating to goodwill can be reversed.

A11 It does not relate to whether a reversal of an impairment loss should be allocated to goodwill (ie whether or not previously impaired goodwill is increased), but relates to whether the source of the reversal should include the one relating to goodwill. In other words, if the impairment recognised in the past included the impairment of goodwill, does this limit the amount of impairment reversal that can be recognised against other assets in the disposal group?

A12 The Interpretations Committee discussed this issue three times in March and May 2010 and September 2013. As a result of the discussion, the Interpretations Committee could not reach a consensus on this issue, noting that there were differing views among the Interpretations Committee members.

Issue J: to what extent an impairment loss can be allocated to non-current assets within a disposal group

A13 This issue relates to whether an impairment loss recognised for a disposal group should be allocated to non-current assets in the group that are within the scope of the measurement requirements of IFRS 5 to the extent that it reduces the carrying amount of such assets below their fair value less costs to sell.

A14 This issue is to be discussed at this meeting (see Agenda Paper 3D).

Presentation

Issue C: definition of discontinued operation and disclosures

A15 At its meeting in September 2014, the Interpretations Committee was informed of the IFRS 5-related issues that the IASB had previously considered but had not resolved.

A16 The Interpretations Committee noted that the IASB had previously attempted to revise the definition of a discontinued operation as part of a joint project with the US national standard-setter, the Financial Accounting Standards Board. It also noted that this project was included in the Financial Statement Presentation project.

Issue D: presentation of OCI items for discontinued operations

A17 At its meeting in September 2014, the Interpretations Committee was informed of IFRS 5-related issues that the IASB had previously considered but had not resolved.

A18 The Interpretations Committee noted that the IASB had discussed how to present OCI items relating to discontinued operations as part of an annual improvement project at its meetings in July and December 2009. It also noted that the IASB had decided that any amendments reflecting the presentation and disclosure issues relating to OCI and accumulated OCI should be considered as part of the Financial Statement Presentation project.

Issue G: how to apply the 'major line of business' in presenting discontinued operations

A19 This issue is about how to interpret the definition of 'discontinued operation', especially with regard to the notion of 'separate major line of business or geographical area of operations' as described in paragraph 32 of IFRS 5. The submitter, with some examples, showed that the notion of separate major line of business or geographical area of operations can be interpreted differently depending on how an entity associates that notion with the definition of 'operating segment' as defined in IFRS 8 *Operating Segments*.

A20 The Interpretations Committee discussed this issue in March 2015 and noted that the definition of discontinued operations is an area that the IASB had attempted to revise in the former Financial Statement Presentation project, but had not resolved the issues related to this. Consequently, the Interpretations Committee noted that this issue could be considered along with the disclosure and presentation issues that it had considered in the September 2014 meeting (Issue C and Issue D in this appendix).

Issue H: how to present intragroup transactions between continuing and discontinued operations

A21 Paragraph 30 of IFRS 5 requires an entity to present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).

A22 This issue relates to how an entity eliminates transactions between continuing and discontinued operations on the face of the statement of profit or loss and OCI, when there are significant transactions between them. The submitter notes that the practice is mixed in this respect as follows:

(a) View A—eliminate such transactions without any adjustments;

(b) View B—eliminate such transactions, but make adjustments to reflect how transactions between continuing or discontinued operations will be reflected in continuing operations going forward; and

(c) View C—do not eliminate such transactions.

A23 This issue is to be discussed at this meeting (see Agenda Paper 3B).

Issue K: how to apply the presentation requirements, in the case of a change to a plan, to a disposal group that consists of both a subsidiary and other non-current assets

A24 For a non-current asset (or a disposal group) ceasing to be classified as held for sale that is not a subsidiary, paragraph 28 of IFRS 5 requires the effect of the measurement adjustment to be included in profit or loss in the period in which it ceases to be classified as such. If a change to a plan of sale involves a disposal group that is a subsidiary, joint operation, joint venture, associate or a portion of an interest in a joint venture or an associate, paragraph 28 requires retrospective amendments.

A25 The issue relates to two aspects of paragraph 28, which are:

(a) Issue K1—how to apply such requirements to a disposal group that consists of both subsidiaries, joint operations, joint ventures and/or associates and other non-current assets; and

(b) Issue K2—whether a retrospective amendment applies only to measurement or also to presentation.

A26 These issues are to be discussed at this meeting (see Agenda Paper 3E).

Disclosure

Issue I: applicability of the disclosure requirements in IFRS 12 to a subsidiary classified as held for sale

A27 This issue relates to the interaction of the disclosure requirements in IFRS 5 and the disclosure requirements in IFRS 12. Paragraph 5B of IFRS 5 specifies that assets that are within the scope of IFRS 5 are not subject to the disclosure requirements in other Standards, unless those Standards specifically require disclosure with respect to such assets. Paragraph B17 of IFRS 12 clarifies that the disclosure requirements in paragraphs B10–B16 of IFRS 12 do not apply to investments within the scope of IFRS 12 that are classified as held for sale in accordance with IFRS 5.

A28 In the light of the requirements in these two Standards, the submitter thinks that it is unclear whether the rest of the disclosure requirements in IFRS 12 would apply to investments classified as held for sale.

A29 This issue is to be discussed at this meeting (see Agenda Paper 3C).

Appendix B—Submission

B1 The following represents a part of the correspondence from a stakeholder, describing the 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.

B2 On these two aspects of paragraph 28 of IFRS 5, we believe that 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 in 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.

B3 Based on our observations, this apparent inconsistency between the two Standards may create mixed practices and we therefore believe that a clarification is required. Even though we acknowledge that one option is to amend IFRS 5, we believe that 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.