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STAFF PAPER

May 2015

IFRS Interpretations Committee Meeting

Project	**IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***
Paper topic	Disclosure relating to non-current assets (or disposal group) within the scope of IFRS 5

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Introduction

1. The IFRS Interpretations Committee ('the Interpretations Committee') received a request to clarify various aspects of the requirements in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* relating to the measurement, presentation and disclosure aspects of IFRS 5. There are four issues in the submission, which can be found in Appendix B—Submission in Agenda Paper 3 for this meeting, as follows:[1][2]
   (a) Issue 2—how to present intragroup transactions between continuing and discontinued operation;
   (b) Issue 3—applicability of the disclosure requirements in IFRS 12 *Disclosure of Interests in Other Entities* to a subsidiary classified as held for sale;

[1] The designation of the issues in this paper is consistent with the designation used in Agenda Paper 3 for this meeting.

[2] Issue 1, which is not included in the new submission, relates to the scope of the held-for-sale classification that the Interpretations Committee discussed over the last few meetings and is also scheduled to be discussed at this meeting.

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

(d) 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.

2. The objective of this Agenda Paper is to provide the Interpretations Committee with a summary of Issue 3, and the staff's analysis and recommendation.

3. This paper provides:

(a) summary of the issue;

(b) staff technical analysis;

(c) summary of the outreach result;

(d) agenda criteria assessment;

(e) staff recommendation; and

(f) Appendix A— Proposed wording for the tentative agenda decision.

4. The key points arising in this paper are:

(a) IFRS 5 sets out the disclosure requirements with respect to non-current assets (or disposal groups) that are classified as held for sale or discontinued operations. The disclosure requirements in other IFRSs do not apply to such assets, unless those IFRSs specifically require disclosure in respect of such assets.

(b) IFRS 12 does not provide any disclosure requirements specific to such assets.

(c) An entity may, however, have to disclose additional information in respect of such assets in order to meet the general requirements of IAS 1 *Presentation of Financial Statements* and the objective of IFRS 12.

Summary of the issue

5. 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 other IFRSs do not apply to such assets unless:
   (a) they require specific disclosures in respect of such assets; or
   (b) they 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.

6. The issue relates to the interaction of the disclosure requirements noted in paragraph 5 of this paper and the disclosure requirements in IFRS 12. Paragraph B17 of IFRS 12 clarifies that the disclosure requirements of 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.

7. The submitter thinks 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 investments.

8. 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 investments, 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 investments, because they do not include any specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale according to IFRS 5.

Staff technical analysis

Disclosure requirements in IFRS 5

9. We think that paragraph 5B of IFRS 5 sets out the minimum mandatory disclosure requirements for non-current assets (or disposal groups) that are classified as held for sale or discontinued operations:

> 5B This IFRS specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other IFRSs do not apply to such assets (or disposal groups) unless those IFRSs require:
>
> (a) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or
>
> (b) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and such disclosures are not already provided in the other notes to the financial statements.
>
> Additional disclosures about non-current assets (or disposal groups) classified as held for sale or discontinued operations may be necessary to comply with the general requirements of IAS 1, in particular paragraphs 15 and 125 of that Standard

10. We note that this paragraph was added to IFRS 5 through *Improvements to IFRSs* issued in April 2009. This was a result of the request to clarify the disclosure scope of IFRS 5. When IFRS 5 was issued in 2004, there was no clear guidance for the scope of disclosures, as there is now in paragraph 5B,

relating to non-current assets (or disposal groups) that are classified as held for sale or discontinued operations. In the absence of the clarifications included in paragraph 5B, a concern arose about the disclosure scope relating to such assets. However, we note that the IASB has already discussed this issue.

11. When discussing the concern, the IASB considered whether all disclosures required by the Standards that do not have scopes that specifically exclude non-current assets (or disposal groups) classified as held for sale or discontinued operations apply to such assets (or disposal groups).[3] As a result of the discussion, the IASB concluded that 'IFRS 5 and other IFRSs that specifically refer to non-current assets (or disposal groups) classified as held for sale or discontinued operations set out all the disclosures required in respect of those assets or operations'.[4]

Meaning of the disclosure exemption in paragraph B17 of IFRS 12

12. We are of the view that the disclosure exemption provided in paragraph B17 of IFRS 12 merely reiterates the disclosure principle in IFRS 5. We do not think that the reference to paragraphs B10–B16 in paragraph B17 implies that the rest of the disclosure requirements in IFRS 12 should apply to investments within the scope of IFRS 12 that are classified as held for sale in accordance with IFRS 5. This is because the IASB made it clear that the disclosure requirements in IFRSs would not apply to non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, unless those IFRSs specifically require disclosure in respect of such assets.

13. We note that the only reference in IFRS 12 to non-current assets that are within the scope of IFRS 5 is made in paragraph 17B, in which the disclosure exemption is explained. We understand this to mean that IFRS 12 does not have any mandatory disclosure requirements in respect of any non-current

[3] IFRS 5 BC14A.

[4] IFRS 5 BC14E.

assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, because it does not have any specific references to such assets.

14. Consequently, we do not think that any of the disclosure requirements in IFRS 12 are mandatorily applicable to investments within the scope of IFRS 12 that are classified as held for sale.

Is an entity prohibited from disclosing information prescribed in IFRS 12 in respect of investments classified as held for sale?

15. As analysed so far, we think that disclosure requirements in IFRS 12 do not mandatorily apply to investments classified as held for sale, however, an entity can still disclose information prescribed in IFRS 12 in respect of such assets. This is because nothing in IFRS 5 or IFRS 12 prohibits an entity to voluntarily disclose information that an entity thinks is useful to users of financial statements.

16. We also note that an entity may sometimes have to disclose additional information. This is because IFRS 5 and IFRS 12 state that an entity may have to go beyond the disclosure requirements in those Standards in order to meet the general requirements of IAS 1 and the objective of IFRS 12, respectively.

17. The last sentence of paragraph 5B of IFRS 5 states that an entity has to disclose additional information necessary to achieve the general requirements of IAS 1, and paragraph 3 of IFRS 12 requires an entity to disclose whatever additional information is necessary if the disclosure required by IFRS 12 and other Standards does not achieve the objective of IFRS 12. Consequently, we are of the view that an entity needs to assess whether additional disclosures are required based on its particular facts and circumstances, with respect to investments within the scope of IFRS 12 that are classified as held for sale.

18. On the basis of our analysis, we are of the view that an entity is not prohibited from disclosing and may sometimes have to disclose more information than required by IFRS 5 and IFRS 12 in order to meet the general requirements of IAS 1 and the objective of IFRS 12.

Summary of the outreach result

19. We have performed outreach with members of the International Forum of Accounting Standard Setters (IFASS), securities regulators and global accounting firms. Specifically, we asked:

    (a) Question 1—Are these issues common or prevalent in your jurisdiction? If yes, please provide us with qualitative or quantitative information about how common they are?

    (b) Question 2—When faced with these issues, what is the prevalent practice applied in your jurisdiction, in what circumstance and why?

    (c) Question 3—Did you observe diversity in practice? If so, please explain how and why the accounting is diversified

20. We received 17 responses from 10 IFASS members, five global accounting firms and two securities regulator.

21. By region, responses were received from two securities regulator, five global accounting firms and 10 jurisdictions (six juridictions from Asia and Oceania, two from Europe, and two from North America). The views received represent informal opinions and do not reflect the formal views of those organisations.

Responses with respect to Question 1

22. About half of the respondents said that the issue is not common in their jurisdiction. Only one of the respondents reported that the issue is common, while two respondents stated that the issue is likely to be prevalent. Other respondents were either not explicit, or did not have enough information to base their views on.

Responses with respect to Question 2

23. One of the respondents who stated that the issue is not common believed that the current practice should be consistent with View 2, whereas another respondent who also stated that the issue is not common expressed a slight

preference for View 1. The latter respondent noted that there would not be practical relevance for this issue, because it thought that if disclosures are made in accordance with IFRS 5, there would not be any additional disclosure under IFRS 12.

24. The respondent who stated that the issue is common noted that the prevalent accounting treatment in its jurisdiction is consistent with View 2. On the contrary, one of the respondents who thought that the issue is likely to be prevalent believed that the predominant accounting treatment is consistent with View 1. One respondent who had conducted its separate outreach to its stakeholders commented that the views are mixed. They noted that some supported View 2 on the grounds that paragraph 5B of IFRS 5 is sufficiently clear, while others believed that IFRS 12 did apply because paragraph B17 of IFRS 12 excluded only the disclosure requirements in paragraphs B10–B16 and nothing else.

Responses with respect to Question 3

25. None of the respondents commented that diversity in practice exists with respect to this issue. One of the respondents noted that no clear guidance may lead to a potential diversity in practice.

Agenda criteria assessment

Agenda criteria	
We should address issues (see paragraph 5.16 of the *IFRS Foundation Due Process Handbook*):	
that have widespread effect and have, or are expected to have, a material effect on those affected.	**No**, in our outreach activity, overall, a majority of the respondents noted that the issue is not common
in which financial reporting would be improved through the elimination, or reduction, of diverse reporting methods.	**No,** as shown in the summary of the outreach result, there is no evidence indicating that there is significant diversity in practice. Some may regard explicit scope exclusion in paragraph B17 of IFRS 12 as confusing, but we are of the view that if the Standards (IFRS 5 and IFRS 12) are read together, one can find enough guidance on how to interpret paragraph B17.

Agenda criteria	
that can be resolved efficiently within the confines of existing IFRS and the *Conceptual Framework for Financial Reporting*.	**N/A**
In addition:	
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 (see paragraph 5.17 of the *IFRS Foundation Due Process Handbook*)?	**N/A**
Will the solution developed by the Interpretations Committee be effective for a reasonable time period (see paragraph 5.21 of the *IFRS Foundation Due Process Handbook*)? (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).	**N/A**

Summary and staff recommendation

26. A summary of our analysis is that:

    (a) IFRS 5 sets out the disclosure requirements with respect to non-current assets (or disposal groups) that are classified as held for sale or discontinued operations. The disclosure requirements in other IFRSs do not apply to such assets, unless those IFRSs specifically require disclosure in respect of such assets.

    (b) IFRS 12 does not provide any disclosure requirements specific to such assets.

    (c) An entity may, however, have to disclose additional information in respect of such assets in order to meet the general requirements of IAS 1 and the objective of IFRS 12.

27. On the basis of our analysis, we recommend that the Interpretations Committee should not add the issue to its agenda. The proposed wording for the tentative agenda decision is set out in Appendix A of this paper.

Questions for the Interpretations Committee
1. Does the Interpretations Committee agree with the staff's analysis as summarised in paragraph 26?
2. Does the Interpretations Committee agree with the staff's recommendation that it should not add this issue to its agenda?
3. If the answer to Question 2 is 'Yes', does the Interpretations Committee agree with the wording of the tentative agenda decision in Appendix A of this paper?

Appendix A—Proposed wording for the tentative agenda decision

A1. We propose the following wording for the tentative agenda decision.

IFRS 5 *Non-current Assets Held for Sale Discontinued Operations*—Disclosure relating to non-current assets (or disposal group) within the scope of IFRS 5

The Interpretations Committee received a request to clarify the interaction between the disclosure requirements in IFRS 5 *Non-Current Assets Held for Sale Discontinued Operations* and the disclosure requirements in IFRS 12 *Disclosure of Interests in Other Entities.* More specifically, the Interpretations Committee was asked to consider whether the disclosure requirements in IFRS 12, other than those prescribed in paragraphs B10–B16, would apply to investments within the scope of IFRS 12 that are classified as held for sale in accordance with IFRS 5.

The Interpretations Committee, referring to paragraph 5B of IFRS 5, noted that the disclosure requirements in IFRSs do not apply to non-current assets (or disposal groups) that are classified as held for sale or discontinued operation in accordance with IFRS 5, unless those IFRSs specifically require disclosure in respect of such assets. The Interpretations Committee also noted that IFRS 12 does not provide any disclosure requirements specific to such assets.

The Interpretations Committee observed that an entity may, however, have to disclose additional information in respect of such assets in order to meet the general requirements of IAS 1 and the objective of IFRS 12. The Interpretations Committee also noted that an entity should assess whether additional disclosures are required based on its particular facts and circumstances.

On the basis of this analysis, the Interpretations Committee concluded that, in the light of the existing requirements of IFRS 5, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.