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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	The extent of impairment loss for a disposal group that can be allocated to non-current assets in the disposal group		
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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 4, 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; and

(e) staff recommendation.

4. The key points arising in this paper are:

(a) when measuring a disposal group at the lower of its carrying amount and fair value less costs to sell in accordance with IFRS 5, the focus of the measurement should be on the disposal group, not the individual assets included in the disposal group;

(b) reducing the amount of non-current assets included in the disposal group that are within the measurement requirements of IFRS 5 below their fair value less costs to sell may be necessary in order to bring the amount of the disposal group to its fair value less costs to sell;

(c) therefore, we think that the allocation of the amount of loss recognised for a disposal group to the assets in the disposal group that are within the measurement requirements of IFRS 5 should not be restricted by their fair value less costs to sell; and

(d) we note that this issue relates to another aspect of the question regarding the unit of account when measuring the impairment loss on a disposal group in accordance with IFRS 5.

Summary of the issue

5. The 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.

6. Paragraph 23 of IFRS 5 sets out the requirements for the allocation of impairment loss recognised for a disposal group to such assets. It states that:

> The impairment loss (or any subsequent gain) recognised for a disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this IFRS, in the order of allocation set out in paragraphs 104(a) and (b) and 122 of IAS 36 (as revised in 2004).

7. The submitter 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* and that it does not refer to paragraph 105 of IAS 36, which relates to the extent of an impairment loss that an entity can allocate to an asset.

8. The submitter notes that there could be two views on this issue as follows:

   (a) View 1—any loss allocation to the assets within the measurement scope of IFRS 5 is **not** restricted by the fair value of the asset to which the loss is allocated, because paragraph 105 of IAS 36 is not applicable when allocating impairment loss to a disposal group in accordance with IFRS 5. This is because paragraph 105 of IAS 36 is not specifically referenced in IFRS 5.

(b) View 2—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, because paragraphs 104–105 of IAS 36 are considered applicable.

Staff technical analysis

9. We think that this issue depends on how we identify the unit of account when measuring a disposal group in accordance with IFRS 5. Identifying a disposal group as the unit of account suggests that View 1 should be taken, whereas identifying each individual asset and liability included in the disposal group as a separate unit of account suggests that View 2 should be taken.

10. We think that an entity should identify the disposal group as the unit of account (ie View 1), which means that the focus of the measurement should be on the disposal group instead of the individual assets included in the disposal group. This is because paragraph 15 of IFRS 5 states that an entity has to measure a disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell. It does not require an entity to measure individual assets in the disposal group that are within the measurement requirements of IFRS 5 at the lower of their carrying amount or fair value less costs to sell.

11. Furthermore, we think that View 1 is more consistent with the way in which the disposal group could be disposed of. For example, if an entity disposes of assets and transfers liabilities as a group instead of individually, the fair value of those individual assets may not be as relevant as the fair value of the disposal group, because those individual assets and liabilities are not realised or transferred separately. We are of the view that measuring individual assets in the disposal group at their fair value less costs to sell, at the sacrifice of not measuring the disposal group at the lower of its carrying amount and fair value less costs to sell, is not consistent with the way in which those assets are to be disposed of.

12. We note that the requirements in paragraph 23 of IFRS 5 are consistent with our analysis. This is because it includes references only to paragraphs 104 and 122 of IAS 36 and it does not include a reference to paragraph 105 of IAS 36, which relates to the extent of impairment losses that an entity can allocate to assets. We think that not specifically including a reference to paragraph 105 of IAS 36 leads to measurement of the disposal group at the lower of its carrying amount and its fair value less costs to sell in accordance with IFRS 5.

13. We think that if the allocation of impairment over the assets included in a disposal group that are within the measurement requirements of IFRS 5 is limited to the amount as suggested by paragraph 105 of IAS 36, it would not result in bringing the amount of the disposal group down to its fair value less costs to sell, which is not consistent with the requirements of IFRS 5.

14. Consequently, we are of the view that the allocation of the amount of loss recognised for a disposal group to the assets in the disposal group that are within the measurement requirements of IFRS 5 should not be restricted by their fair value less costs to sell.

15. Having said that, we note that this issue relates to another aspect of the question regarding the unit of account when measuring the impairment loss on a disposal group in accordance with IFRS 5.

16. The Interpretations Committee previously discussed the following issues, in respect of measurement of a disposal group:

    (a) how to recognise an impairment loss for 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; and

    (b) 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.

17. After discussing these issues, the Interpretations Committee decided to discuss new issues before deciding how to proceed with the IFRS 5 issues.

18. Consequently, we think that this issue, which relates to another measurement issue, would need to be addressed within the context of the measurement aspect of IFRS 5, together with other related measurement issues in IFRS 5.

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 regulators, 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. On the contrary, there are three respondents who stated that the issue is common. Other respondents were either not explicit, or did not have enough information to base their opinions on.

Responses with respect to Question 2

23. All of the respondents who commented that the issue is common expressed that the predominant accounting treatment is consistent with View 1. One of them noted that IFRS 5 does not require entities to measure individual non-current assets included in a disposal group at the lower of their carrying amount and their fair value less costs to sell. Consequently, entities may not have the information available to apply View 2.

24. A few of the respondents who stated that the issue is not common also supported View 1 because they noted that paragraph 23 of IFRS 5 includes specific reference to paragraph 104 of IAS 36, and does not refer to paragraph 105 of IAS 36. One of them also commented that the accounting treatment in this manner is on the basis that the non-current assets included in the disposal group are not being sold individually, and are instead being sold as part of the larger disposal group.

Responses with respect to Question 3

25. None of the respondents, except for the submitter, reported that they have observed diversity in practice with respect to this issue in their jurisdiction. However, a few respondents noted that lack of guidance in this respect may lead to diversity in practice, and consequently, clarification on the issue would be helpful.

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.	**Yes,** even though half of the respondents indicated that the issue is not common in their jurisdictions, there are three respondents who reported that the issue is common. Moreover, we note that whenever an entity decides to dispose of non-current assets together with other assets and liabilities, this issue could arise.
in which financial reporting would be improved through the elimination, or	**Yes,** even though no respondents to the outreach, except for the submitter, indicated that there is diversity in practice with respect to this issue, a few of them

Agenda criteria	
reduction, of diverse reporting methods.	noted that lack of guidance may lead to diversity in practice. We also note that this issue relates to another aspect of the question regarding the unit of account when measuring the impairment loss on a disposal group in accordance with IFRS 5. Consequently, we think that this issue should be dealt with, along with other measurement issues of IFRS 5, which we believe will contribute consistent application of requirements.
that can be resolved efficiently within the confines of existing IFRS and the *Conceptual Framework for Financial Reporting*.	As mentioned above, we think that this measurement issue should be considered with other measurement issues of IFRS 5 that the Interpretations Committee looked at. We think that because the measurement issues of IFRS 5 touch on fundamental principles of IFRS 5, the Interpretations Committee should bring them to the attention of the IASB.
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) when measuring a disposal group at the lower of its carrying amount and fair value less costs to sell in accordance with IFRS 5, the focus of the measurement should be on the disposal group, not the individual assets included in the disposal group;

(b) reducing the amount of non-current assets included in the disposal group that are within the measurement requirements of IFRS 5 below their fair value less costs to sell may be necessary in order to bring the amount of the disposal group to its fair value less costs to sell; and

(c) therefore, we think that the allocation of the amount of loss recognised for a disposal group to the assets in the disposal group that are within the measurement requirements of IFRS 5 should not be restricted by their fair value less costs to sell.

27. We also note that this issue relates to another aspect of the question regarding the unit of account when measuring the impairment loss on a disposal group in accordance with IFRS 5.

28. On the basis of our analysis, we recommend that the Interpretations Committee should consider this issue, together with other measurement issues relating to IFRS 5.

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 in paragraph 28?