STAFF PAPER

May 2015

IFRS Interpretations Committee Meeting

Project	**IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***
Paper topic	Presentation relating to a disposal group when there has been a change to a sale plan

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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, which 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 5, 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

Summary of the issue

4. 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 sale plan involves a disposal group or non-current asset that is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate, paragraph 28 of IFRS 5 requires retrospective amendments.

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

   (a) Issue 2-1—how to apply the requirements in paragraph 28, relating to a change to a sale plan, to a disposal group that consists both of a subsidiary, a joint operation, a joint venture and/or an associate, and other non-current assets; and

(b) Issue 2-2—whether retrospective amendment applies only to measurement or it also applies to presentation, with respect to a change of a plan involving a subsidiary, a joint operation, a joint venture and/or an associate, and other non-current assets.

Issue 2-1—how to apply the requirements in paragraph 28, relating to a change to a sale plan, to a disposal group that consists both of a subsidiary, a joint operation, a joint venture and/or an associate, and other non-current assets

6. The first issue relates to how to apply the requirements in paragraph 28 to a disposal group that consists both of a subsidiary, a joint operation, a joint venture and/or an associate, and other non-current assets.

7. The submitter notes that 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 affects only the current period. The submitter is of the view that reflecting the re-measurement effect of different assets within the same disposal group in different periods is counterintuitive.

Issue 2-2—whether retrospective amendment applies only to measurement or it also applies to presentation, with respect to a change of a plan involving a subsidiary, a joint operation, a joint venture and/or an associate, and other non-current assets

8. As for the second issue, the submitter 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 whether paragraph 40 applies, and if so, how. Paragraph 40 prevents reclassification or re-presentation of amounts for non-current assets (or disposal groups)

classified as held for sale, in the statements of financial position for prior periods.

Staff technical analysis

Issue 2-1—how to apply the requirements in paragraph 28, relating to a change to a sale plan, to a disposal group that consists both of a subsidiary, a joint operation, a joint venture and/or an associate, and other non-current assets

9. We note that the requirements in paragraph 28 of IFRS 5 requires an entity to record any required adjustments arising from a change to a sale plan in profit or loss:

    (a) in the period in which there has been a change to a sale plan, if a disposal group does not involve a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate; and

    (b) in the period in which there has been a change to a sale plan, and also in prior periods as needed (ie if the classification as held for sale had started in a prior year), if a disposal group is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate.

10. We also note that paragraph 28 of IFRS 5 does not address a situation in which a disposal group consists both of non-current assets and a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate.

11. We are of the view that if a disposal group includes both other non-current assets and a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate, an entity may have to record any required adjustments in accordance with paragraph 28 of IFRS 5 in different accounting periods, on the grounds that:

(a) IFRS 5 includes specific accounting requirements for a change to a sale plan that involves a disposal group that is a subsidiary, and a disposal group that is not a subsidiary; and

(b) in addition, IFRS 5 does not provide specific accounting requirements for a disposal group involving both a subsidiary and other non-current assets.

Why there are different accounting requirements for different types of a disposal group?

12. We note that the requirement for retrospective amendments if a disposal group is a subsidiary was added to IFRS 5 as a consequential amendment when IFRS 11 *Joint Arrangements* was issued. The consequential amendment added the following sentence to paragraph 28 of IFRS 5:

> 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.

13. The reason for this addition is not clear from the Basis for Conclusions on IFRS 5. However, according to the staff paper[3] that suggested the amendment, the suggestion was to resolve the inconsistency that had existed at that time between the accounting requirements for a change to a sale plan in IFRS 5 and IAS 28 *Investments in Associates* (before the revision of the Standard in 2011) and IAS 31 *Interests in Joint Ventures*.

14. Before IFRS 11 was issued, IAS 28 had the following requirements with respect to a change to a sale plan involving an investment in an associate[4]:

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[3] See Agenda Paper 13A for the IASB's meeting in May 2010.

[4] IAS 31 had the similar requirement for interest in a jointly controlled entity as follows:

> 43 When an interest in a jointly controlled entity previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using proportionate consolidation or the equity method as from the date of its classification as held for sale.

> 15 When an investment in an associate previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

15. Because the accounting requirements in paragraph 28 of IFRS 5 at that time seemed to be in conflict with the requirements in IAS 28 and IAS 31, the IASB decided to resolve the inconsistency by adding the sentence described in paragraph 12 of this paper.

16. Although we understand that the additional language was inserted in paragraph 28 of IFRS 5 as a consequential amendment, this does not explain why there are two different accounting requirements for different types of a disposal group.

17. We note that the requirement in IAS 28 mentioned in paragraph 14 of this paper was one of the consequential amendments to that Standard when IFRS 5 was issued in 2004. There was no explanation in the Basis for Conclusions on IAS 28 for why that addition had been made to that Standard.

18. We also note that IAS 28 had included the following similar requirements before the issue of IFRS 5 (the following excerpt is from IAS 28 as revised in 2003, reflecting *Improvements to International Accounting Standards* issued in December 2003):

> 13. An investment in an associate shall be accounted for using the equity method except when:
>
> (a) there is evidence that the investment is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer;

Financial statements for the periods since classification as held for sale shall be amended accordingly.

> (b) […]
>
> 14. Investments described in paragraph 13(a) shall be classified as held for trading and accounted for in accordance with IAS 39.
>
> 15. When an investment in an associate previously accounted for in accordance with IAS 39 is not disposed of within twelve months, it shall be accounted for using the equity method as from the date of acquisition (see IAS 22 Business Combinations). Financial statements for the periods since acquisition shall be restated.

19. In the absence of any explicit rationale for requiring retrospective amendments when there has been a change to a sale plan involving an interest in an associate, we infer from the transition from the old requirements in IAS 28 (ie requirements that existed before the issue of IFRS 5) to the new requirements in IAS 28 (ie the consequential amendments to IAS 28 when IFRS 5 was issued) that the principles in the old requirements were simply carried forward to the new requirements. This was despite the fact that the retrospective amendment was in conflict with the requirements in IFRS 5 for a change to a sale plan for non-current assets (or disposal groups).

20. We have read the staff paper that the IASB used for discussion when originally developing IFRS 5, and we also have had a discussion with the staff who were involved with the IFRS 5 project at that time. Nevertheless, we have not been able to identify the reasons as to why the issue of IFRS 5 led to different accounting treatments for different types of a disposal group when there has been a change to a sale plan.

21. We acknowledge that, in the absence of clear justifications for such different accounting treatments, it seems inconsistent to record required adjustments in accordance with paragraph 28 of IFRS 5 in different accounting periods when the adjustments are caused by the same changes to the same disposal group.

22. However, as noted in the section below *Summary of the outreach result*, the result of the outreach shows that this issue is not common and that there is no

significant diversity in practice with respect to this issue. Consequently, we are of the view that the Interpretations Committee should not take this issue onto its agenda.

Issue 2-2—whether retrospective amendment applies only to measurement or it also applies to presentation, with respect to a change of a plan involving a subsidiary, a joint operation, a joint venture and/or an associate, and other non-current assets.

23. The second issue relates also to a presentation of a disposal group when there has been a change to a sale plan. If a disposal group is, for example, a subsidiary, paragraph 28 of IFRS 5 requires that '[f]inancial statements for the periods since classification as held for sale shall be amended accordingly'. The submitter expressed a concern that this requirement is not clear on whether retrospective amendment relates only to measurement in prior periods, or also to presentation.

24. We note that there is an equivalent requirement for equity-method investments in paragraph 21 of IAS 28 *Investments in Associates and Joint Ventures* (after the revision of the Standard in 2011), which states [emphasis added]:

> When an investment, or a portion of an investment, in an associate or a joint venture previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for *using the equity method* retrospectively as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

25. We note that this paragraph specifies that an entity uses equity method when the entity retrospectively amends its financial statements. We understand from paragraph 15 of IAS 28 that the equity method accounting relates not only to the measurement of such investment, but also to the presentation of such an asset. Consequently, we are of the view that in this case, an entity has to amend not only the measurement of, but also the presentation of, the equity method investment.

26. Considering that the amendment to paragraph 28 of IFRS 5 was a result of addressing the concern over the inconsistency, as noted in paragraphs 13‑15 of this paper, we are of the view that we should interpret the requirement in paragraph 28 of IFRS 5 consistently with the requirement in IAS 28. In addition, we do not see any reason why an investment in a subsidiary, or a joint operation, or a joint venture should be accounted for differently in this respect. In other words, we think that when such an investment no longer meets the held-for-sale classification, an entity should amend its financial statements retrospectively with respect to both the measurement of, and the presentation of, such an investment.

27. Furthermore, we note that retrospective amendments in terms of the presentation of assets and liabilities of a subsidiary are consistent with the way their measurements are amended retrospectively. This is because if only measurements are amended retrospectively, an entity would recognise, for example, depreciation expense for items of property, plant and equipment, while those assets would not appear in the statement of financial position as depreciable assets. Instead, they are presented as assets held for sale, which are associated with cessation of depreciation.

28. The submitter also noted that the requirements in paragraph 40 of IFRS 5 seem to prohibit such reclassification. Paragraph 40 of IFRS 5 requires:

> An entity shall not reclassify or re-present amounts presented for non-current assets or for the assets and liabilities of disposal groups classified as held for sale in the statements of financial position for prior periods to reflect the classification in the statement of financial position for the latest period presented.

29. Even though it may not be clear, from the wordings in paragraph 40 of IFRS 5, on whether the requirements included in the paragraph would apply only at the initial classification as held for sale, or also when there has been a change to a sale plan, we are of the view that such requirements generally apply in both cases. This is because we think that the objective of such requirements is to reflect entities' decisions in the statement of financial position at a point in

time. We note that a change to a sale plan does not change the fact that entities previously expected to dispose of non-current assets (or disposal groups), nor do entities' decisions to dispose of such assets in the current year change the fact that the entities were previously using them in operations. Consequently, we are of the view that paragraph 40 of IFRS 5 prohibits reclassification of non-current assets (or disposal groups) in prior periods, to conform to the current year presentation.

30. Nevertheless, we understand the requirements in paragraph 40 of IFRS 5 to be not applicable to the presentation in the statement of financial position, relating to non-current assets (or disposal groups) that are a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate, when there has been a change to a sale plan involving such assets. This is because the presentation requirement for such non-current assets (or disposal groups), in our view, are separately prescribed in paragraph 28 of IFRS 5.

31. On the basis of our analysis, we are of the view that the term 'amended accordingly' in paragraph 28 of IFRS 5 should apply to both measurement and presentation aspects of financial statements.

32. Notwithstanding our conclusion, we are sympathetic to the view that this is not clear from the wording included in paragraph 28 of IFRS 5 and that paragraph 40 of IFRS 5 seems to prohibit such reclassification.

33. However, as noted in the section below *Summary of the outreach result*, the result of the outreach shows that this issue is not common and that there is no observable diversity in practice with respect to this issue. Consequently, we are of the view that the Interpretations Committee should not take this issue onto its agenda.

Summary of the outreach result

34. 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.

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

36. By region, responses were received from two securities regulator, five global accounting firms and 10 jurisdictions (six jurisdictions 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 Issue 2–1

37. More than half of the respondents said that the issue is not common in their jurisdiction. Even though they noted no diversity in practice with respect to this issue, a few of them expressed that clarification with respect to this issue would be useful because the guidance in paragraph 28 is difficult to apply. One of the respondents who reported that the issue is not common stated that different accounting requirements for different types of assets within the same disposal group seem reasonable, in the light of the difference in the nature of those assets.

38. There was only one respondent who reported that the view on whether the issue is common is mixed. This respondent conducted its separate outreach to its stakeholders, and one of its stakeholders reported back that this is a common

issue. The stakeholder commented that there is diversity in practice in interpreting the requirements in paragraph 28 of IFRS 5.

39. None of the respondents, except for the stakeholder mentioned in paragraph38, reported that there is diversity in practice with respect to this issue. However, one of them noted that current wordings in paragraph 28 could create inconsistent treatment and may lead to potential diversity in practice.

Responses with respect to Issue 2–2

40. The result of the outreach with respect to Issue 2–2 is similar to the result of the outreach for Issue 2–1. Half of the respondents commented that the issue is not common in their jurisdiction. One of them commented that they would read the requirements of paragraph 28 as requiring amending the measurement retrospectively, but not retrospectively amending the presentation, while another respondent believed that retrospective amendment applies to both measurement and presentation.

41. On the contrary, one of the stakeholders of the respondent who conducted its separate outreach said that the issue is common. The stakeholder said that they think that the comparative information is not adjusted, except for the presentation of the discontinued operations.

42. With respect to diversity in practice relating to this issue, no respondents reported that they had observed diversity. However, one of them noted that current wordings in paragraph 28 could create inconsistent treatment and may lead to 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 these issues are not common

Agenda criteria	
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 with respect to these issues.
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

43. A summary of our analysis is that:

(a) Issue 2-1: We think that if a disposal group consists both of a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate, and other non-current assets, any required adjustments relating to the carrying amount of the disposal group may have to be recorded in different accounting periods in accordance with paragraph 28 of IFRS 5. We also think that these requirements are inconsistent with each other.

(b) Issue 2-2: We think that if a disposal group 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, and other non-current assets, an entity has to amend its financial statements retrospectively in terms of the disposal group's measurements and also presentation. We understand the view that the requirements in IFRS 5 are not clear with respect to this issue.

44. We agree that Issue 2-1 represents an inconsistency in the IFRS guidance. We also agree that the guidance with respect to Issue 2-2 is not clear.

45. However, we note that there is no evidence to show that these issues are common, or that there is significant diversity in practice with respect to these issues.

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

Questions for the Interpretations Committee
1. Does the Interpretations Committee agree with the staff analysis as summarised in paragraph 43? 2. Does the Interpretations Committee agree with the staff 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*—Presentation of non-current assets (or disposal groups) when there has been a change to a sale plan**
>
> The Interpretations Committee received a request to clarify the presentation requirements when a non-current asset (or a disposal group) 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.
>
> The submitter raised two issues relating to this as follows:
>
> (a) When a disposal group consists both of a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate, and other non-current assets, the guidance in paragraph 28 of IFRS 5 seems to suggest that the effect of re-measurement on different parts of the disposal group is reflected in different periods.
>
> (b) It is not clear on whether retrospective amendment as required in paragraph 28 of IFRS 5 applies only to measurement or also applies to presentation, with respect to a change of a plan involving a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate, and other non-current assets.
>
> On the basis of the responses to the outreach request, the Interpretations Committee observed that these issues are not widespread. The Interpretations Committee therefore concluded that in the absence of evidence indicating that these issues are widespread, it [decided] not to add these issues to its agenda.