

## STAFF PAPER

September 2015

## IFRS Interpretations Committee Meeting

Project	<b>IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i></b>		
Paper topic	Report back on the IASB's discussion and decisions on IFRS 5 issues		
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

## Introduction

1. At its meeting in July 2015, the IASB discussed and made some decisions regarding the issues relating to *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* that the IFRS Interpretations Committee ('the Interpretations Committee') had discussed previously.
2. The purpose of this paper is to report back to the Interpretations Committee on the IASB's discussions and decisions reached at the July IASB meeting.
3. This paper is structured as follows:
  - (a) background;
  - (b) next steps for various IFRS 5-related issues;
  - (c) the disclosure issue relating to the interaction between IFRS 5 and *IFRS 12 Disclosure of Interests in Other Entities*; and
  - (d) Appendix A—Excerpt from the July *IASB Update* on IFRS 5-related issues.

## Background

4. Over the last few years, the Interpretations Committee has received a number of submissions related to IFRS 5. The Interpretations Committee has discussed them over a number of its meetings, but many of them have still not been resolved. This was partly because the Interpretations Committee felt that some of those issues would require a broader-scope analysis than the Interpretations Committee could undertake.
5. The Interpretations Committee had its last discussion on IFRS 5-related issues at its meeting in May 2015. After having performed a technical discussion on each IFRS 5-related issue, the Interpretations Committee decided:
  - (a) that the Interpretations Committee should bring these issues to the attention of the IASB; and
  - (b) to ask the IASB whether it thought any issues should be addressed through the normal processes of the Interpretations Committee or whether the IASB thought it would be better to consider undertaking a broad-scope project on IFRS 5.
6. Consequently, we brought the issues to the IASB at its meeting in July 2015, along with our recommendation on the next steps for these issues.

## Next steps for various IFRS 5-related issues

### **Overall approach**

#### *Staff analysis and recommendation<sup>1</sup>*

7. As an overall approach to a number of IFRS 5-related issues, we thought that it was important that the IASB should address the issues comprehensively rather than individually, because:
  - (a) we were of the view that the large number of unresolved IFRS 5 issues were a sign of a need to review IFRS 5; and

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<sup>1</sup> Our full analysis can be found in [Agenda Paper 12C](#) for the July 2015 IASB meeting.

- (b) we were concerned that addressing the issues separately could lead to a succession of separate amendments to the Standard and that some future amendments might not be consistent with other amendments that might be made at different times.
8. In this respect, we thought it would be beneficial for the IASB to include a reference to a possible broad-scope review on IFRS 5 in the Request for Views that was soon to be issued as part of the Agenda Consultation. This is because we think that through such a consultation we could learn about the priority that stakeholders place on the need to address the issues with IFRS 5 relative to other aspects on which the IASB could focus its resources.
9. At the same time, we thought that some of the issues discussed by the Interpretations Committee could be addressed relatively quickly and independently. We think that the IASB or the Interpretations Committee could address these separately in the short term and it could lead to provision of a clarification to, or guidance on, IFRS 5 in a timely manner.
10. Consequently, we recommended to the IASB that it should:
- (a) divide the unresolved IFRS 5-related issues into those to be considered in the short term and to those to be considered in the medium to longer term; and
  - (b) for the medium- to longer-term issues, make a reference in the Request for Views in the forthcoming agenda consultation to a potential broad-scope project on IFRS 5.

*The IASB's discussion and decision*

11. The following is a summary of the IASB's discussion at its July 2015 meeting regarding our recommendation on the overall approach to the IFRS 5-related issues:
- (a) IASB members suggested that they generally agreed with the staff recommendation to divide the issues into short-term issues and longer-term issues, as long as the Interpretations Committee was confident that the short-term issues were not interrelated with others.

- (b) One IASB member expressed a concern with relying too much on the agenda consultation for the longer-term issues, because the consequence of the consultation would not necessarily lead to the longer-term issues being considered with high priority. This member was concerned that if this were the case, the longer-term issues would not be considered in a timely manner despite the existence of some diversity in practice in relation to those issues.
  - (c) In contrast, some IASB members expressed the view that the agenda consultation was a good opportunity to get feedback on the technical issues.
  - (d) Some IASB members thought that including a specific question on IFRS 5-related issues in the agenda consultation document would be beneficial, while other members were concerned that the agenda consultation document was not structured to incorporate specific issues in detail.
  - (e) One IASB member thought that the IASB should consider a Post-implementation Review on IFRS 5, because through such a review the IASB can collect more background on the issues. This IASB member said that it was also important to find out whether the US national standard-setter, the Financial Accounting Standards Board, had the same issues.
12. After the discussion, the IASB agreed with the staff recommendation, as described in paragraph 10. Consequently, the Request for Views for the agenda consultation includes a reference to IFRS 5-related issues.

### ***Separate short-term issues***

#### *Staff analysis and recommendation*

13. As stated in paragraph 9, we thought that some issues could be addressed relatively quickly and independently on the basis of the past discussions about them by the Interpretations Committee.

14. We thought that one of the impairment issues and one of the presentation issues<sup>2</sup> could be candidates for possible agenda decisions, because:
- (a) we thought that the scope of these issues is narrow; and
  - (b) the Interpretations Committee came close to tentative conclusion that sufficient guidance exists for these issues at its meeting in May 2015.
15. Additionally, we thought that the disclosure issue<sup>3</sup>, which is further discussed below, should be addressed through an annual improvement, particularly because the discussion of the issue by the Interpretations Committee in May 2015 had revealed that there was a potential unintended consequence that the IASB had not envisaged.
16. Consequently, we recommended to the IASB that these three issues should be considered separately in the short term.

*The IASB's discussion and decision*

17. In addition to the comments summarised in paragraph 11, the IASB members made the following comments, which focus more on the selection of and related approaches to the issues that could be considered in the short-term:
- (a) One IASB member expressed a concern over the different approaches that the staff had suggested for the short-term issues (ie agenda decisions, and annual improvement). This IASB member thought that considering all the short-term issues together in annual improvements would bring greater clarity to the Standard. In contrast, another IASB member noted that such a treatment would not be consistent with the Interpretations Committee's tentative finding that there was sufficient guidance with respect to some short-term issues.

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<sup>2</sup> These are Issues 5 and 9, respectively, in [Agenda Paper 12C](#) for the IASB meeting in July 2015. Issue 5 relates to the extent to which an impairment loss can be allocated to non-current assets within a disposal group. Issue 9 relates to presentation of intragroup transactions between continuing and discontinued operations.

<sup>3</sup> This is Issue 11 in [Agenda Paper 12C](#) for the IASB meeting in July 2015, which relates to applicability of the disclosure requirements in IFRS 12 to a subsidiary classified as held for sale.

- (b) One IASB member suggested that they could explain why they had dealt with only one issue through annual improvements in the Basis for Conclusions to the annual improvements. In other words, for the short-term issues that would not lead to amendments through annual improvements, this member thought that they could discuss these issues in the Basis for Conclusions, including why these did not result in amendments. Another IASB member thought that this was consistent with the way the IASB dealt with clarification proposal to IFRS 15 *Revenue from Contracts with Customers*. However, another IASB member was concerned with the visibility of the Basis for Conclusions to the annual improvement, with respect to the short-term issues that were not subject to an amendment.
- (c) One IASB member said that the IASB or the Interpretations Committee should address more issues in the short term in order to provide timely guidance. Another IASB member suggested that one of the presentation issues<sup>4</sup> should not be considered as an agenda decision item because this member thought that this issue related to the fundamental objective of IFRS 5.
18. After the discussion, the IASB agreed with the staff recommendation, as described in paragraph 16.
19. We presented to the IASB at the same meeting our analysis of the disclosure issue<sup>5</sup> and recommended that it should address the issue through annual improvements. See the following section for details. For the other two issues, we have prepared Agenda Papers 2B and 2C to be discussed at this meeting.

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<sup>4</sup> This is Issue 9 in [Agenda Paper 12C](#) for the IASB meeting in July 2015, which relates to presentation of intragroup transactions between continuing and discontinued operations.

<sup>5</sup> This is Issue 11 in [Agenda Paper 12C](#) for the IASB meeting in July 2015, which relates to applicability of the disclosure requirements in IFRS 12 to a subsidiary classified as held for sale.

## The disclosure issue relating to the interaction between IFRS 5 and IFRS 12 *Disclosure of Interests in Other Entities*

### **Background**

20. At its meeting in May 2015, the Interpretations Committee discussed whether an entity is required to disclose information relating to interests in other entities within the scope of IFRS 12 when such interests are classified as held for sale in accordance with IFRS 5.<sup>6</sup>
21. As a result of the discussion, the Interpretations Committee noted a concern that the way IFRS 5 and IFRS 12 are written could result in an outcome that the IASB had not intended when it developed IFRS 12. It appeared that IFRS 5 and IFRS 12 could be read as implying that an entity would not have to provide the disclosures required by IFRS 12 in relation to its interests in other entities that are classified as held for sale, whereas this did not appear to have been the IASB's intention. Consequently, the Interpretations Committee decided to bring the issue to the attention of the IASB.

### **Staff analysis and recommendation<sup>7</sup>**

22. We recommended to the IASB that it should clarify the scope of the disclosure requirements in IFRS 12. This is because we thought that without such a clarification, one could read IFRS 12 to mean that the disclosure requirements in IFRS 12 would not apply to interests in other entities that are held for sale because IFRS 12 does not have a specific reference to IFRS 5, except in paragraph B17.
23. However, in our view, the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, should apply to interests in other entities even when the interests are classified as held for sale. This is because we think that the

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<sup>6</sup> See [Agenda Paper 3C](#) for the Interpretations Committee's meeting in May 2015.

<sup>7</sup> Our full analysis can be found in [Agenda Paper 12D](#) for the July 2015 IASB meeting.

information required by IFRS 12 is relevant regardless of whether or not an entity classifies its interests in other entities as held for sale or discontinued operations.

24. We noted that the objective of IFRS 12 is to provide information that is useful in evaluating the nature of and the risks associated with an entity's interests in other entities, as well as information that is useful in assessing the financial effects of those interests on the entity's financial statements. We thought that the objective of IFRS 12 would apply to an entity's interests in other entities regardless of their classification as held for sale or discontinued operations, because:

- (a) classifying an entity's interests as held for sale does not automatically relieve the entity from the risks associated with its interests in other entities; and
- (b) the financial effects of these interests on the entity also exist regardless of the classification of the interests as held for sale or discontinued operations.

25. In the light of the current wordings in IFRS 5 and IFRS 12, we felt that a clarification should be made. Because the issue relates to a clarification of the Standard and the scope is limited, we thought an annual improvement could deal with the issue. Consequently, we recommended to the IASB that it should clarify the scope of IFRS 12 through an annual improvement.

*The IASB's discussion and decision*

26. The following is a summary of the IASB's discussion regarding our recommendation on the disclosure issue:

- (a) One IASB member said that the IASB's intention appeared clear, considering the specific disclosure exemption in paragraph B17 of IFRS 12. Consequently, this member thought that the nature of the clarification was more of an editorial correction.



- (b) Some IASB members were concerned that addressing the issue through an annual improvement could raise questions regarding other potential conflicts between the disclosure requirements in IFRS 5 and those in other Standards.
  - (c) One IASB member observed that early application of the proposed clarification, as we had proposed, was not necessary because entities could always make a disclosure if they wanted to.
27. After the discussion, the IASB agreed with the staff recommendation, as described in paragraph 25.
28. This issue will be included in the Exposure Draft on *Annual Improvements to IFRS 2014–2016 Cycle*, which we expect the IASB to publish in Q4 of 2015.

**Question for the Interpretations Committee**

Does the Interpretations Committee have any questions or comments in relation to this report?

## **Appendix A—Excerpt from the July IASB *Update* on IFRS 5 related issues**

### ***Next steps for a series of issues relating to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (Agenda Paper 12C)***

The IASB considered various IFRS 5 issues that the IFRS Interpretations Committee (the ‘Interpretations Committee’) has discussed but has not yet resolved, and discussed what further work would be appropriate.

The IASB decided that the issues should be divided into those that could be considered in the short term and those that could be considered in the medium to longer term. For the medium- to longer-term issues, the IASB tentatively decided to include a reference to the IFRS 5 concerns raised by the Interpretations Committee in the Request for Views for the forthcoming Agenda Consultation.

All IASB members agreed with these decisions.

For the short-term issues, the IASB decided that Issues 5 and 9 in [Agenda Paper 12C](#) should be referred to the Interpretations Committee for possible agenda decisions. Issue 11 in [Agenda Paper 12C](#) was considered separately through the discussion of [Agenda Paper 12D](#).

Eleven IASB members agreed with this decision and three IASB members disagreed.

### ***Next steps***

The issues identified for possible agenda decisions will be discussed by the Interpretations Committee at its next meeting. The Request for Views that will be issued as part of the forthcoming Agenda Consultation will include a reference to the IFRS 5 concerns raised by the Interpretations Committee.

### ***Clarification of the scope of the disclosure requirements in IFRS 12 Disclosure of Interests in Other Entities (Agenda Paper 12D)***

The IASB discussed an issue relating to the interaction between the scope of IFRS 5 and the scope of IFRS 12 that had been submitted to the Interpretations Committee. Specifically, the IASB discussed whether the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, should apply to interests that are classified as held for sale or discontinued operations in accordance with IFRS 5.

The IASB observed that the objective of IFRS 12 would apply to an entity’s interests in other entities regardless of their classification as held for sale or discontinued operations. Consequently, the IASB tentatively decided to clarify the scope of IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those in

paragraphs B10–B16, apply to interests that are classified as held for sale or discontinued operations.

The IASB also decided:

- a. to include this amendment in the Exposure Draft *Annual Improvements to IFRS 2014–2016 Cycle*; and
- b. that the proposed amendment should be applied retrospectively.

All fourteen IASB members agreed with these decisions.

The IASB reviewed the due process steps that had been taken to date that relate to the publication of the Exposure Draft *Annual Improvements to IFRS 2014–2016 Cycle*, including the amendment discussed at this meeting. All fourteen IASB members confirmed that they:

- a. do not intend to dissent from the publication of *Annual Improvements to IFRS 2014–2016 Cycle*;
- b. agree with the proposed comment period of 90 days; and
- c. are satisfied that the IASB has completed all of the necessary due process steps on the project to date.

The IASB therefore instructed the staff to commence the balloting process for the Exposure Draft.

### *Next steps*

The IASB expects to issue an Exposure Draft on *Annual Improvements to IFRS 2014–2016 Cycle* in Q4 of 2015.