

STAFF PAPER

September 2015

IFRS Interpretations Committee Meeting

Project	IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>
Paper topic	<i>To what extent can an impairment loss be allocated to non-current assets within a disposal group?</i>
CONTACT(S)	Takashi Yamagami tyamagami@ifrs.org +44 (0)20 7246 6410

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. The IFRS Interpretations Committee ('the Interpretations Committee') discussed several issues relating to application of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* at its meeting in May 2015. One of the issues related to a measurement requirement. Specifically, it related to whether an impairment loss recognised for a disposal group can 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.
2. After the discussion in May 2015, the Interpretations Committee decided to take all the IFRS 5-related issues that it had discussed, including this one, to the IASB in order to ask for advice from the IASB on what the next steps should be regarding the unresolved IFRS 5-related issues.

3. At its meeting in July 2015, the IASB agreed with the staff recommendation that this issue should be considered for a potential agenda decision item separately from the other issues.¹
4. The purpose of this paper is to provide:
 - (a) a summary of the issue;
 - (b) a summary of the staff analysis and original recommendation;
 - (c) a summary of the discussions by the Interpretations Committee and the IASB;
 - (d) a summary of the outreach result;
 - (e) staff analysis and recommendation; and
 - (f) proposed wordings for the tentative agenda decision.
5. The proposed wording for the tentative agenda decision and an excerpt on this issue from the May IFRIC *Update* can be found in Appendix A—Proposed wording for the tentative agenda decision, and Appendix B—Excerpt from the May IFRIC *Update*, respectively.

Summary of the issue

6. 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.
7. 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

¹ At its meeting in July 2015, the IASB discussed the next steps for a series of IFRS 5-related issues, including the selection of the issues that could be considered in the short term. See Agenda Paper 2A for a summary of the IASB’s discussion and decisions.

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).

8. The submitter noted 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.
9. The submitter noted 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.

Summary of the staff analysis and original staff recommendation²

10. Through our analysis, we noted that:
 - (a) This issue depends on how we identify the unit of account when measuring a disposal group in accordance with IFRS 5. In this respect, we thought that an entity should identify the disposal group as the unit of account (ie View 1), which means that the focus of the measurement

² Our full analysis can be found in [Agenda Paper 3D](#) for the Interpretations Committee's meeting in May 2015.

should be on the disposal group as a whole instead of on the individual assets included in the disposal group. This is because:

- (i) 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; and
 - (ii) IFRS 5 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.
- (b) View 1 was more consistent with the way in which the disposal group could be disposed of.
- (c) 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, which relates only to the order of allocation of impairment losses. However, paragraph 23 does not extend the reference to paragraph 105 of IAS 36, which limits the allocation of impairment losses to individual assets to the higher of their fair value less costs of disposal, their value in use, and zero. In our view, the exclusion of a specific reference to paragraph 105 of IAS 36 is consistent with our view that the unit of account is the disposal group and is also consistent with the measurement objective of IFRS 5, which requires the disposal group to be measured at the lower of its carrying amount and its fair value less costs to sell. Consequently, the allocation of impairment losses to non-current assets within a disposal group would not be restricted by the fair value of those assets.
11. On the basis of our analysis, we presented our 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.

12. However, in the light of the other two measurement issues³ that the Interpretations Committee had discussed, we recommended that this issue should be considered together with those two issues.

Summary of the discussions by the Interpretations Committee and the IASB

13. The following is a summary of the Interpretations Committee's discussion at its meeting in May 2015:
- (a) One Interpretations Committee member agreed with the staff analysis that the unit of account should be the disposal group. This member, however, was concerned with a situation in which an impairment loss for a disposal group exceeds the carrying amount of the non-current assets in the disposal group.
 - (b) Some other Interpretations Committee members said that this particular issue was straightforward. They observed that unlike the other two measurement issues that the Interpretations Committee had discussed, this issue could be addressed within the confines of IFRS 5. This is because, in their view, the issue was limited to the measurement of non-current assets that are within the measurement requirements of IFRS 5, whereas the other two measurement issues could affect the measurement of assets and liabilities that were outside the measurement requirements of IFRS 5. Because of limited nature of the issue, they also thought that this issue did not have to involve a discussion of what should be the unit of account in terms of the measurement under IFRS 5.

³ The other two measurement issues that the Interpretations Committee had discussed are:

- (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.

14. In the light of the discussion as summarised above, we thought that this issue could be addressed through an agenda decision. Consequently, we recommended to the IASB at its meeting in July 2015 that this issue should be considered, separately from the other IFRS 5-related issues.
15. At its meeting in July 2015, the IASB discussed our analysis and recommendation regarding the selection of short-term issues, and it generally agreed with our recommendation.

Summary of the outreach result⁴

16. We performed outreach with members of the International Forum of Accounting Standard Setters, securities regulators and global accounting firms, and we received 17 responses. We reported the results of this outreach to the Interpretations Committee at its meeting in May 2015. The responses can be summarised as follows:
- (a) About half of the respondents said that the issue is not common in their jurisdiction, while a few respondents stated that the issue is common in their jurisdiction.
 - (b) Predominant accounting treatment is consistent with View 1.
 - (c) 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

⁴ For details, see [Agenda Paper 3D](#) for the Interpretations Committee’s meeting in May 2015.

Agenda criteria	
We should address issues (see paragraph 5.16 of the <i>IFRS Foundation Due Process Handbook</i>):	
that have widespread effect and have, or are expected to have, a material effect on those affected.	<p>Yes, even though half of the respondents indicated that the issue is not common in their jurisdictions, there are a few respondents who reported that the issue is common.</p> <p>Moreover, we note that whenever an entity decides to dispose of non-current assets together with other assets and liabilities, this issue could arise.</p>
in which financial reporting would be improved through the elimination, or reduction, of diverse reporting methods.	<p>No, none of the respondents, except for the submitter, reported that they have observed diversity in practice with respect to this issue in their jurisdiction.</p> <p>In contrast, a few respondents noted that lack of guidance in this respect may lead to diversity in practice.</p> <p>However, we are of the view that the scope of this issue is limited to the measurement of non-current assets that are within the measurement requirements of IFRS 5. Additionally, we think that there is sufficient guidance on how to allocate an impairment loss for a disposal group to non-current assets that are within the measurement requirements of IFRS 5.</p>
that can be resolved efficiently within the confines of existing IFRS and the <i>Conceptual Framework for Financial Reporting</i> .	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 <i>IFRS Foundation Due Process Handbook</i>)?	N/A
Will the solution developed by the Interpretations Committee be effective for a reasonable time period (see paragraph 5.21 of the <i>IFRS Foundation Due Process Handbook</i>)? (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

Staff analysis and staff recommendation

17. We agree with the observations made at the May Interpretations Committee meeting that unlike the other IFRS 5 measurement issues, the scope of this

issue is limited to the measurement of non-current assets that are within the measurement requirements of IFRS 5. In this regard, we are of the view that paragraph 23 of IFRS 5 provides sufficient guidance on the extent to which an impairment loss can be allocated to the non-current assets that are within the measurement requirements of IFRS 5. This is because paragraph 23 does not refer to paragraph 105 of IAS 36.

18. On the basis of our analysis and the result of the agenda criteria assessment, 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 recommendation that it should not add this issue to its agenda?
2. If the answer to Question 1 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—to what extent can an impairment loss be allocated to non-current assets within a disposal group?

The Interpretations Committee received a request to clarify a measurement requirement of IFRS 5 *Non-Current Assets Held for Sale Discontinued Operations*. Specifically, the question related to the extent to which an impairment loss recognised for a disposal group can be allocated to non-current assets that are within the measurement requirements of IFRS 5.

The Interpretations Committee noted that paragraph 23 of IFRS 5 addresses the recognition of impairment losses for a disposal group. It also noted that in determining the order of allocation of impairment losses to non-current assets, paragraph 23 refers to paragraphs 104 and 122 of IAS 36 *Impairment of Assets*, which relates to the order of allocation of impairment losses. However, it does not refer to paragraph 105 of IAS 36, which limits the allocation of impairment losses to individual assets to the higher of their fair value less costs of disposal, their value in use, and zero. Consequently, the Interpretations Committee observed that paragraph 105 of IAS 36 would not affect the allocation of an impairment loss for a disposal group to non-current assets in accordance with IFRS 5. The Interpretations Committee understood this to mean that the allocation of impairment losses to non-current assets within a disposal group would not be restricted by the fair value of those assets. The Interpretations Committee observed that this conclusion is consistent with the measurement objective of IFRS 5, which is to measure the disposal group at the lower of its carrying amount and fair value less costs to sell.

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.

Appendix B—Excerpt from the May IFRIC Update

Issue 4: to what extent an impairment loss can be allocated to non-current assets within a disposal group

Paragraph 23 of IFRS 5 addresses the recognition of impairment losses for a disposal group. In determining the order of allocation to non-current assets, paragraph 23 refers to paragraphs 104 and 122 of IAS 36 *Impairment of Assets* but not to paragraph 105 of IAS 36, which relates to the extent of an impairment loss that an entity can allocate to an asset. Consequently, the Interpretations Committee tentatively concluded that paragraph 105 of IAS 36 does not affect the allocation of an impairment loss for a disposal group to the assets.

The Interpretations Committee also noted that this issue is different from the other IFRS 5 measurement related-issues that the Interpretations Committee had previously looked at, because this issue relates only to the measurement of non-current assets that are within the measurement scope of IFRS 5, whereas the other issues touch on the measurement of assets and liabilities, including those that are not within the measurement scope of IFRS 5.