

STAFF PAPER

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Project	2015 Agenda Consultation		
Paper topic	Comments received on IFRS 5		
CONTACT(S)	April Pitman	apitman@ifrs.org	+44 (0)20 7246 6492

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Purpose

1. This paper discusses the feedback received with respect to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* in response to the International Accounting Standards Board’s (the Board’s) request for views *2015 Agenda Consultation* (‘the RFV’) and outreach conducted as part of its public agenda consultation. The Board will not be asked to make any decisions at this meeting.

Structure of this paper

2. This paper is organised as follows:
 - (a) background;
 - (b) comments received on IFRS 5; and
 - (c) summary and next steps.

Background

3. The RFV, published in August 2015, included the following reference to IFRS 5:

Possible additional research project

33 The Interpretations Committee has asked the IASB to consider a number of practical issues relating to the consistent application of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The IASB has observed that a broad-scope project could be needed to deal with several of the issues raised. The IASB will decide whether to add to its work plan a research project on these issues when it has considered the feedback from this Agenda Consultation.

Comments received on IFRS 5

4. As part of its agenda consultation process, the Board received comments on IFRS 5 through:
 - (a) responses to the RFV;
 - (b) responses to an online survey; and
 - (c) outreach conducted.

Responses to the RFV

5. The Board received 119 comment letters in response to its RFV. Of these respondents, 35 (or 29%) referred to IFRS 5 as a possible research project.
6. These respondents covered a range of types, but IFRS 5 was more important to accountancy firms or bodies and to standard-setters than to other types of respondents. Twelve of the 26 accountancy firms or bodies and 11 of the 27 standard-setters respondents commented on this research project. By contrast, just 6 of a total of 37 preparers commented on IFRS 5. No investor comment letter respondents identified IFRS 5 as an important topic for research.
7. Respondents who commented on IFRS 5 were generally well spread geographically, although 60% of the respondents who thought it important were based in Europe. Twenty one of a total of 58 European respondents commented on this project, ie 36% of European respondents compared with 29%

of all respondents. No African, Latin American or North American respondents identified IFRS 5 as an important topic.

8. Respondents who referred to IFRS 5 were generally supportive of the Board adding a research project on IFRS 5 to its work plan.
9. Of the 35 respondents who referred to IFRS 5, 23 indicated whether they thought that IFRS 5 ranked as a topic of high, medium or low importance:

Importance	Number of respondents
High	7
Medium	13
Low	3
TOTAL	23

10. Those respondents who thought the issue was of high or medium importance referred to the number of issues raised with the IFRS IC. These respondents think that the number of submissions raised indicates a need for a broader review of the Standard. The staff note that since 2009, the IFRS IC has received 22 submissions on the application of IFRS 5. These submissions are tabulated in Appendix A of this paper, to give an indication of the number of submissions received.
11. The IFRS IC in its comment letter on the RFV (Comment letter 18) refers to its own concerns and lists this topic as one of five topics for the Board’s attention, based on the number of submissions received:

A number of unresolved issues have been submitted to the Interpretations Committee, particularly with respect to the scope, measurement and presentation of discontinued operations. As a result, at the Interpretations Committee’s meeting in May 2015, we recommended that this topic be referred to the IASB. As a result of our concerns, we note that this topic has been identified in your 2015 Agenda Consultation Request For Views as a potential research project.

12. Several respondents suggested that any future work on IFRS 5 undertaken by the Board should be extended to include earlier submissions concluded by issuing agenda decisions and should not be limited only to those topics referred by the IFRS IC to the Board and discussed at its May 2015 meeting.
13. A few respondents stated that inconsistent application arose because the Standard had been developed for a typical sales transaction, but had been amended subsequently to include a notion of distribution to owners as a trigger for discontinuance.

Originally the standard foresaw the for sale criterion as the relevant trigger for transactions to be in the scope of IFRS 5. By incorporating the distribution notion in 2009, the IASB broadened the scope of the standard to include further circumstances, for example spin-off transactions. ..., the accounting for several other transactions remain unclear. Examples include the loss of control resulting from a dilution or from written call options that are deeply in the money. *Deutsches Rechnungslegungs Standards Committee e.V.* (comment letter 6)

....for example, how to address eliminations of intra-group transactions between the parent entity and and the subsidiary, which the parent will cease to control. *International Association of Insurance Supervisors* (comment letter 24)

14. Of the three respondents who thought that research on IFRS 5 was of low importance, one, the New Zealand Accounting Standards Board, stated that it was not aware of any significant matters related to IFRS 5 in its jurisdiction. Another, the International Organization of Securities Commissions (IOSCO), had received mixed views from its members, some of whom thought a research project was appropriate given the number of practice questions raised over the past several years. Other IOSCO members, however, thought that this topic was not a priority.

Responses to the online survey

15. As part of its agenda consultation process, the Board conducted an online survey as described in Agenda Paper 24D *Online Survey: detailed responses and respondent demographics*. Although no specific question was asked on this topic, two of the 169 respondents referred to IFRS 5 as a high priority for improvement. Both respondents were investors based in Europe. One of these respondents thought that too many operations were presented as discontinued and that the effects of discontinuance were recognised earlier than this respondent thought appropriate. This respondent thought that this treatment overstated underlying growth rates in continuing operations. The other respondent did not provide further explanation.

Outreach conducted

16. Although IFRS 5 was not included on the list of research projects contained in paragraph 32 of the RFV, a number of participants in the outreach expressed concern at the number of issues submitted to the IFRS IC on this topic; for example the IFRS Advisory Council at its November 2015 meeting.

Summary and next steps

17. Many respondents think that the number and variety of issues that have been raised with respect to IFRS 5 warrant a fundamental review of IFRS 5, rather than the Board attempting to address these issues through a series of narrow-scope amendments.
18. A number of these respondents suggest that the Board should conduct a Post-implementation Review (PIR) of IFRS 5. The staff note that the *Due Process Handbook* allows the Board to carry out a PIR ‘in response to concerns about the quality of an IFRS that has been expressed by the IFRS Advisory Council, the Interpretations Committee, standard-setters or interested parties’.
19. The staff think that the Board should consider reviewing how IFRS 5 operates in practice, either as a research project or through conducting a PIR. The staff will present a recommendation to the Board at a future meeting.

Submissions to the IFRS IC

(The topic of some submissions may duplicate or overlap with that of other submissions.)

Early submissions (discussed prior to the September 2015 meeting):	
1	Early queries on changes to a plan of sale, unit of account and impairment
2	How should you present discontinued operations when there is continuing involvement within the group?
3	Which perspective (ie a subsidiary perspective or a group perspective) should be followed in applying accounting requirements in IFRS 9/IAS 39 when a subsidiary is held for sale in accordance with IFRS 5?
4	Can reversal of an impairment be allocated pro rata to assets with a zero carrying amount? How should it be reversed?
5	Address an inconsistency between paragraphs 8A and 6–The wording in paragraph 6 suggests that the subsidiary is disposed of in its entirety, but paragraph 8A refers to a loss of control while retaining a non-controlling interest.
6	Loss of significant influence or joint control and discontinuance
7	Measurement of non-current assets or disposal groups
8	How do you account for any subsequent increase in fair value less costs of sale in the case when there was a previous impairment of goodwill?
9	Can a disposal group be classified as held for sale under IFRS 5 if the seller will have to pay a third party to accept it (ie if the ‘sale proceeds’ are negative)?
10	Does a planned IPO meet the condition of being actively marketed for sale prior to receiving approval from its securities regulator to contact prospective buyers?
11	Whether prospectus approval is needed for a transaction to qualify as held-for-sale
12	Whether a change in disposal method from an IPO to a dividend-in-kind qualifies as a change in disposal plan
13	Clarify the use of the term “fair value less costs of disposal” as compared to “fair

	value less costs to sell”–The submitter notes that IAS 36 changed the latter term to the former, however, observes that similar changes were not made to IFRS 5, and IAS 36 still retains some references to “costs to sell”. Is a distinction being made in respect of “costs of disposal” in the application of IAS 36 from IFRS 5?
Submissions discussed at the September 2015 meeting of the IFRS IC:	
14	How should the value of the disposal group be recorded when a write down to fair value minus costs to sell exceeds the carrying value of non-current assets?
15	Can an impairment of a disposal group be reversed if the initial impairment related to goodwill?
16	How to interpret loss of control in determining a disposal group
17	Accounting for a disposal group consisting mainly of financial instruments
18	How to apply major line of business in presenting a discontinued operations
19	Applicability of IFRS 12 disclosure requirements to a subsidiary that is to be sold
20	How to present intragroup transactions between continuing and discontinued operations?
21	To what extent can an impairment loss be allocated to non-current assets within a disposal group?
22	How are presentation requirements applied, in the case of a change to a plan, to a disposal group that consists both of a subsidiary and other non-current assets?
Issues previously discussed by the Board and referred to by the IFRS IC at its September 2015 meeting:	
23	Should OCI relating to Discontinued Operations be separately presented?
24	Definition of discontinued operations and disclosures