

## STAFF PAPER

January 2016

## IFRS Interpretations Committee Meeting

Project	<b>IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i></b>
Paper topic	To what extent can an impairment loss be allocated to non-current assets within a disposal group?
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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. The IFRS Interpretations Committee ('the Interpretations Committee') received a request to clarify the application of the measurement requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The request related to clarification of the allocation requirements of an impairment loss recognised for a disposal group. Specifically, the submitter asked whether such an impairment loss can be allocated to non-current assets in the disposal group that are within the scope of the measurement requirements of IFRS 5 to the extent that the allocation reduces the carrying amount of such non-current assets below their fair value less costs to sell.
2. The Interpretations Committee discussed this issue in May and September 2015 and in September, tentatively decided not to add it onto its agenda ('the tentative agenda decision'). This was because it noted that the requirements in IFRS 5 and IAS 36 *Impairment of Assets* provided sufficient guidance and, therefore, it concluded that neither an Interpretation nor an amendment to the Standard was necessary.
3. The objective of this Agenda Paper is to provide an analysis of the comment letters received on the tentative agenda decision and to ask whether the

Interpretations Committee agrees with the staff recommendation that it should finalise the tentative agenda decision.

4. This Agenda Paper is structured as follows:
  - (a) comment letter summary;
  - (b) staff analysis;
  - (c) staff recommendation;
  - (d) Appendix A—Proposed wording for the final agenda decision; and
  - (e) Appendix B—Comment letters.

### **Comment letter summary**

5. The comment period for the tentative agenda decision ended on 23 November 2015. We received three comment letters from:

- (a) Accounting Standards Committee of Germany (ASCG);
- (b) MAZARS; and
- (c) Deloitte.

We also received comments from staff of the Australian Accounting Standards Board ('AASB').

6. One respondent (MAZARS) agreed with the conclusion reached in the tentative agenda decision for the reasons set out in the tentative agenda decision.
7. While agreeing with the conclusion in the tentative agenda decision, two other respondents (Deloitte and the AASB staff) suggested strengthening the rationale behind it by including a discussion of a unit of account.
8. In contrast, ASCG did not agree with the tentative agenda decision. The respondent considered that there was insufficient guidance with respect to the issue.
9. MAZARS and ASCG also commented on the appropriateness of separating this issue from other IFRS 5 issues. MAZARS' comment was that the other

two measurement issues<sup>1</sup> that are included in another tentative agenda decision that deals with various IFRS 5 issues ('the other measurement issues') could also be dealt with in the short term. ASCG, on the other hand, disagreed with concluding on some issues (ie the issues covered in this Agenda Paper and Agenda paper 7B for this meeting) now while putting other issues on hold.

## **Staff analysis**

### ***Discussion of a unit of account***

10. With respect to the suggestion made by Deloitte and the AASB staff, we understand the reason for this suggestion. Our view of the unit of account within the context of IFRS 5 measurement is consistent with the view expressed by Deloitte and the AASB staff, which is the disposal group as a whole instead of individual assets and liabilities within the disposal group. Our original proposal for the wording of the tentative agenda decision included the following sentence:

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.

11. However, the Interpretations Committee thought that it was better to leave this out because it noted that:

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<sup>1</sup> The other measurement issues that are included in the tentative agenda decision that deals with various IFRS 5 issues 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.

- (a) this might risk appearing to prejudge the approach to the other two measurement issues, on which the Interpretations Committee did not reach a consensus; and
  - (b) this sentence would not be necessary to justify the conclusion reached in the tentative agenda decision.
- 12. We are of the view that the conclusion in the tentative agenda decision can stand without the additional discussion of a unit of account. This is because the issue is limited to the measurement of non-current assets that are within the measurement requirements of IFRS 5, while the other two measurement issues could affect the measurement of assets and liabilities that were outside the measurement requirements of IFRS 5.
- 13. Moreover, we note that the Interpretations Committee did not reach a consensus on the unit of account when it discussed the other measurement issues in the past.
- 14. Consequently, we do not think that it is necessary to add a discussion of the unit of account with respect to this issue.

***Should this issue be considered with other IFRS 5 issues?***

- 15. With respect to the appropriateness of separating this issue from various IFRS 5 issues as raised by MAZARS, and ASCG, we are of the view that the Interpretations Committee should neither:
  - (a) consider the other measurements issues in the short term; nor
  - (b) transfer this issue to the relevant agenda decision that deals with the various IFRS 5 issues.
- 16. We hold this view because
  - (a) the Interpretations Committee considered which of the IFRS 5 issues that it had discussed could be dealt with in the short term, taking into account the scope of each issue and its past discussions about each one, and concluded that the other measurement issues were too broad to be considered in the short term; and

- (b) separately addressing this issue through an agenda decision provides a clarification to, or guidance on, IFRS 5 in a timely manner, which would contribute to reduction in diversity in practice.
17. We also think that neither MAZARS nor ASCG put forward any new arguments that would persuade us to change the tentative agenda decision.
18. Consequently, we are of the view that this issue should be addressed through an agenda decision separately from other various IFRS 5 issues.

### **Staff recommendation**

19. On the basis of our analysis, we recommend that the Interpretations Committee should finalise the tentative agenda decision, with editorial changes to the original wording.

#### **Questions for the Interpretations Committee**

1. Does the Interpretations Committee agree with the staff's recommendation that it should finalise its decision not to 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 final agenda decision in Appendix A of this paper?

## Appendix A—Proposed wording for the final agenda decision

- A1. We propose the following wording for the final agenda decision. The new text is underlined and deleted text is struck through.

***IFRS 5 Non-current Assets Held for Sale and 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 and Discontinued Operations*. Specifically, the question ~~was~~ is whether, in a situation in which the carrying amount of those assets exceeds the amount of the impairment loss, the allocation of an impairment loss recognised for a disposal group can reduce the carrying amount of non-current assets that are within the scope of the measurement requirements of IFRS 5 to an amount that is lower than their fair value less costs of disposal or their value in use. In analysing this issue, the Interpretations Committee did not consider the implications for allocation of an impairment loss if that loss exceeds the carrying amount ~~value~~ of the non-current assets that are within the scope of 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 that are within the scope of the measurement requirements of that Standard, paragraph 23 refers to paragraphs 104 and 122 of IAS 36 *Impairment of Assets*, which relate to the order of allocation of impairment losses. However, it does not refer to paragraph 105 of IAS 36, which restricts the impairment losses allocated to individual assets by requiring that an asset is not written down to less than the higher of its fair value less costs of disposal, its value in use and zero. Consequently, the Interpretations Committee observed that the restriction in paragraph 105 of IAS 36 does not apply when allocating an impairment loss for a disposal group to the non-current assets that are within the scope of the measurement requirements of IFRS 5. The Interpretations Committee understood this to mean that the amount of impairment that should be recognised for a disposal group would not be restricted by the fair value less costs of disposal or value in use of those non-current assets that are within the scope of the measurement requirements of IFRS 5.

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.