

STAFF PAPER

July 2016

IASB Meeting

Project	<i>Annual Improvements to IFRSs 2014-2016 Cycle—Comment Letter Analysis</i>		
Paper topic	IFRS 12 <i>Disclosure of Interests in Other Entities</i> —Disclosure requirements for held-for-sale interests		
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Introduction

1. The Board published the Exposure Draft *Annual Improvements to IFRSs 2014–2016 Cycle* (the ED) in November 2015. One of the proposed amendments included in the ED relates to IFRS 12 *Disclosure of Interests in Other Entities*. The proposal is to clarify the scope of the existing IFRS 12 disclosure requirements in relation to interests that are classified as held for sale, as held for distribution to owners or as discontinued operations applying IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (held-for-sale interests).
2. The objective of this paper is to provide an analysis of the comment letters received on the proposed amendments to IFRS 12, and ask the Board whether it agrees with our recommendation to finalise the amendments.

Summary of staff recommendations

3. The staff recommend that the Board should reaffirm its proposed amendments to IFRS 12 to:
 - (a) clarify that the disclosure requirements in IFRS 12, except for those in paragraphs B10–B16, apply to held-for-sale interests; and

- (b) require retrospective application of those amendments applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Structure of this paper

- 4. This paper is structured as follows:
 - (a) description of the issue and the proposed amendments;
 - (b) staff analysis of the comments received on the ED;
 - (c) Appendix A—Other matters raised in the comment letters; and
 - (d) Appendix B—Draft amendments to IFRS 12.

Description of the issue and the proposed amendments

- 5. Paragraph 5B of IFRS 5 says that, with respect to disclosures for non-current assets (or disposal groups) classified as held for sale, as held for distribution to owners or as discontinued operations, an entity need not apply the disclosure requirements in IFRS Standards (other than those in IFRS 5), unless those Standards require disclosures specific to such assets (or disposal groups). IFRS 12 does not include any reference to held-for-sale interests, with the exception of paragraph B17—paragraph B17 states that the disclosure requirements in paragraphs B10–B16 do not apply to held-for-sale interests. Because IFRS 12 specifically includes this exemption for paragraphs B10–B16, it is unclear whether other disclosure requirements in IFRS 12 apply to such interests. Consequently, the Board was asked to clarify the scope of IFRS 12 with respect to held-for-sale interests.
- 6. In considering the issue, the Board noted that the objective of IFRS 12 is relevant to interests in other entities, regardless of whether they are classified as held-for-sale interests. This is because, even when interests in other entities are classified as held-for-sale interests:
 - (a) an entity continues to be exposed to risks associated with holding those interests; and

- (b) those interests continue to have an effect on the entity's financial position, financial performance and cash flows.
7. Consequently, the Board proposed to clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's held-for-sale interests. The Board also proposed that an entity apply such amendments retrospectively.

Staff analysis of the comments received on the ED

8. In this section, we discuss and analyse the comments received from respondents to the ED. The comment period ended on 17 February 2016. The Board received 47 comment letters on the proposed amendments to IFRS 12.

The proposed amendments to IFRS 12

9. Almost all respondents agree with the Board's proposed amendments.
10. Those who provide an explanation:
- (a) agree with the Board's rationale that the disclosure objective of IFRS 12 is relevant to interests in other entities, even when those interests are classified as held-for-sale interests; and
 - (b) say that the proposed amendments would clarify the scope of IFRS 12 with respect to held-for-sale interests and, thus, would contribute to entities applying IFRS 12 on a consistent basis.
11. There are two respondents who disagree with the proposed amendments.¹ They say the Board should consider which disclosure requirements in IFRS 12 are particularly relevant for held-for-sale interests, and specify that entities apply only those relevant disclosure requirements (Issue 1). Similarly, two respondents who agree with the amendments suggest that the Board should perform an exercise to identify the relevant disclosure requirements.² These respondents suggest that the

¹ Accounting Standards Board of Japan (CL5), Banco Bradesco S.A. (CL43)

² Deloitte Touche Tohmatsu Limited (CL10), South African Institute of Chartered Accountants (CL30)

Board should perform such an exercise, not as part of finalising the proposed amendments at this time, but when it conducts a Post-implementation Review (PIR) of IFRS 5.

12. Appendix A to this paper sets out other matters raised by respondents (including editorial suggestions), and outlines the staff's proposed approach to address those matters.

Issue 1—Reconsideration of disclosure requirements relevant to held-for-sale interests

13. As summarised in paragraph 11 above, two respondents suggest that the Board should consider the relevance of the disclosure requirements in IFRS 12 in relation to held-for-sale interests, and require entities to disclose only information that is specifically relevant to such interests. They suggest that the Board should do this as part of finalising the proposed amendments.
14. One of those respondents comments that:
- (a) in the light of the IFRS 5 measurement and disclosure requirements applicable to held-for-sale interests, many of the disclosure requirements in IFRS 12 are redundant for such interests; and
 - (b) before IFRS 12 was issued, there had been no equivalent disclosure requirements in IFRS Standards for held-for-sale interests. The Board did not specifically discuss adding disclosure requirements for such interests when developing IFRS 12.
15. We acknowledge that some disclosure requirements in IFRS 12 might be more relevant to held-for-sale interests than others. However, this is also true for interests that are not held for sale. This is because the relevance of disclosure requirements for particular interests depends on the specific facts and circumstances relating to such interests, irrespective of whether they are classified as held for sale. In our view, this is implicit in the requirements in paragraph 4 of IFRS 12. That paragraph provides some flexibility in the amount of information an entity provides for its interests in other entities. When considering the information to disclose for held-for-sale interests, an entity determines the level of detail necessary to meet the objective of IFRS 12. Consequently, we think the

Board does not need to reconsider the disclosure requirements in IFRS 12 with respect to held-for-sale interests, at least as part of finalising the proposed amendments (see paragraph 18).

16. In addition, although the Board may not have specifically discussed held-for-sale interests when developing the requirements now included in IFRS 12, when the Board considered this issue at its meeting in July 2015, it observed that the disclosure objective of IFRS 12 is relevant to *all* interests in other entities. In this respect, paragraph BC4 of the ED states:

The IASB noted that the disclosure objective of IFRS 12 is relevant to interests in other entities regardless of whether or not they are classified as held for sale, as held for distribution to owners or as discontinued operations. This is because:

(a) an entity continues to be exposed to risks associated with interests in other entities regardless of their classification as held for sale or as held for distribution to owners; and

(b) the effects of those interests on an entity's financial position, financial performance and cash flows also exist regardless of their classification as held for sale, as held for distribution to owners or as discontinued operations.

17. Consequently, we recommend that the Board reaffirm its proposed amendments, which clarify that held-for-sale interests are subject to the IFRS 12 disclosure requirements, except for those requirements in paragraphs B10–B16.
18. Having said that, we note that the Board has recently made a tentative decision to undertake a PIR of IFRS 5. If the Board wishes to review the disclosure requirements for held-for-sale interests, we think that it would be appropriate to do so when it conducts that PIR.

Question 1—Issue 1—Reconsideration of disclosure requirements relevant to held-for-sale interests

Does the Board agree with the staff recommendation that it should reaffirm its proposed amendments to clarify that held-for-sale interests are subject to the IFRS 12 disclosure requirements, except for those requirements in paragraphs B10–B16?

Transition requirements

19. Almost all respondents agree with the Board’s proposed retrospective application of the amendments to IFRS 12.
20. Four respondents disagree with the proposed transition requirements (discussed below as Issue 2).³
21. Two respondents who agree with the proposed transition requirements question whether the costs of providing comparative disclosures would outweigh the benefits in particular situations (discussed below as Issue 3).⁴
22. A few other respondents suggest that the effective date of the amendments should be close to the issue date of the amendments on the grounds that the amendments merely clarify the Board’s intent.⁵ In contrast, one respondent suggests that the Board provide a sufficient period of time for implementation (Issue 4).⁶
23. In addition to the feedback mentioned in paragraphs 20–22 above, Appendix A to this paper sets out other matters raised by respondents in relation to the proposed transition requirements, and outlines the staff’s proposed approach to address those matters.

³ Comitê de Pronunciamentos Contábeis (CL20), Ms Lynessa Dias (CL25), Banco Bradesco S.A. (CL43), Grupo Latinoamericano de Emisores de Normas de Información Financiera (CL44)

⁴ Grant Thornton International (CL11), Repsol (CL36)

⁵ Dr Avi Swed (CL1), Hong Kong Institute of Certified Public Accountants (CL41), Banco Bradesco S.A. (CL43)

⁶ The Japanese Institute of Certified Public Accountants (CL32)

Issue 2—Prospective versus retrospective application

24. Four respondents suggest that an entity should apply the amendments prospectively, but did not provide any reasons for that suggestion.
25. We recommend that the Board should reaffirm its proposal that entities should apply the amendments retrospectively applying IAS 8. This is because:
- (a) it would lead to consistency across reporting periods within an entity and across different entities; and
 - (b) we think that retrospective application of the amendments is unlikely to be onerous. Entities would be likely to have the information needed to provide the disclosures for held-for-sale interests. This is because, before such interests were classified as held for sale, an entity would have been required to provide those disclosures required by IFRS 12.

Issue 3—Transition relief

26. Two respondents asked the Board to consider whether it should provide transition relief for entities whose interests in other entities either (1) have been disposed of before the date of initial application of the amendments, or (2) will have been disposed of by the end of the period that includes the date of initial application.
27. We acknowledge that the value of comparative information relating to interests that are disposed of during the comparative period, or the period that includes the date of initial application, may not be as great as when an entity still holds those interests. However, we think that the Board should not provide transition relief for the amendments for the following reasons:
- (a) providing such transition relief would be inconsistent with some of the disclosure requirements in IFRS 12. For example, paragraph 25 of IFRS 12 requires an entity to disclose information about its exposure to risks from involvement that it *had* with an unconsolidated structured entity. This requirement applies even if an entity no longer has any contractual involvement with the structured entity at the reporting date.
 - (b) we think that the incremental costs of collecting data and preparing disclosure information would not be significant. Entities would have

had to collect data and prepare disclosure information for those held-for-sale interests before they were classified as such. A change in their classification would be unlikely to make it difficult for entities to collect such data for disclosure.

28. Consequently, we recommend that the Board does not provide any transition relief for the amendments.

Issue 4—Effective date

29. Paragraph 6.35 of the [Due Process Handbook](#) requires that the mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems, and those applying IFRS have sufficient time to prepare for the new requirements.
30. As summarised in paragraph 22, although a few respondents suggest an early effective date, one respondent suggests that the Board provide a sufficient period of time to implement the amendments.
31. We agree with those respondents who suggest an early effective date because the amendments are clarifying in nature. The proposed amendments affect disclosure requirements only (and not recognition and measurement requirements), and the disclosure requirements in IFRS 12 are generally applicable only to annual financial statements. In addition, as described in paragraph 25(b) of this paper, an entity would be likely to have the information needed to provide the disclosures for held-for-sale interests.
32. Consequently, provided that the Board finalises the amendments in the fourth quarter of 2016, we recommend that the effective date for the amendments is 1 January 2017.
33. An effective date of 1 January 2017 would typically mean that the earliest that an entity would be required to apply the amendments would be within financial statements for the year ended 31 December 2017. Accordingly, an effective date of 1 January 2017 typically gives an entity more than one year to prepare to implement the amendments.

34. The effective date of the Annual Improvements package is discussed further in Agenda Paper 12F for this meeting. The question for the Board regarding the effective date is also included in that Agenda Paper.

Question 2—Issues 2 and 3—Transition requirements

Does the Board agree with the staff recommendation to:

- (a) reaffirm the proposal to require retrospective application of the amendments applying IAS 8?
- (b) not provide any transition relief for the amendments?

Appendix A—Other matters raised in the comment letters

Issue	Staff Proposal
Proposed amendments to IFRS 12	
Several respondents point out that the term ‘held for sale, held for distribution to owners or discontinued operations’ is not consistently used between the main body of the Standard and the Basis for Conclusion. ⁷	We have reflected a proposed change in this respect in Appendix B. We will also ensure that these terms are used consistently when drafting the final amendments.
Transition	
Some respondents suggest that the Board explicitly state that an entity applies the amendments retrospectively, because this is unclear without an explicit statement. ⁸	We agree. We have reflected a proposed change in this respect in Appendix B.
Two respondents suggest that the Board explicitly permit early application of the amendments. ⁹	We think that the Board does not need to include a statement permitting early application. This is because entities are not prohibited from disclosing information applying IFRS 12 related to held-for-sale interests. They can always voluntarily disclose such information without the amendments. If helpful, we could include this explanation in the Basis for Conclusions.
Editorial suggestions	
A few respondents suggest deleting paragraph B17 of IFRS 12 on the grounds that it will be redundant if the Board inserts proposed paragraph 5A. ¹⁰	We agree that paragraph B17 could be redundant with the addition of proposed paragraph 5A (see Appendix B). However, we recommend retaining paragraph B17. In our view, the changes to IFRS 12 should be limited to only those needed to enact the amendment to avoid any unintended

⁷ Israel Accounting Standards Board (CL19), RSM International Limited (CL21), Korea Accounting Standards Board (CL26), Korean Institute of Certified Public Accountants (CL28), Ernst & Young Global Limited (CL34), Institute of Singapore Chartered Accountants (CL50)

⁸ Dr Avi Swed (CL1), PricewaterhouseCoopers (CL24), Telefónica, S.A. (CL37), Hong Kong Institute of Certified Public Accountants (CL41)

⁹ Dr Avi Swed (CL1), Singapore Accounting Standards Council (CL22)

¹⁰ Dr Avi Swed (CL1), The Institute of Chartered Accountants of Zimbabwe (CL31), Public Accountants and Auditors Board Zimbabwe (CL 39)

	consequences that could arise from adding or deleting words.
<p>One respondent suggests that the Board refer to the requirements in the main body of IFRS 12, in addition to those in its Application guidance, when referring to the exemption requirements for held-for-sale interests. For example, they suggest that the Board could refer to paragraphs 12(g), 21(b)(ii) and 21(c), in addition to paragraphs B10–B16.¹¹</p>	<p>In our view, the suggested additional references are covered, in effect, by the existing references to paragraphs B10–B16. For the same reason as described in our response to the other editorial suggestion above, we recommend that the Board should not include additional references in explaining the exemption for held-for-sale interests.</p>

¹¹ Israel Accounting Standards Board (CL19)

Appendix B—Draft amendments

This Appendix includes the staff's initial thoughts on the wording of the amendments to IFRS 12, incorporating the staff recommendations in this paper. This drafting is subject to change. The amendments to the proposals in the ED are shown in red and *italics*.

[Draft] Amendments to IFRS 12 *Disclosure of Interests in Other Entities*

Paragraph 5A is added. New text is underlined.

Scope

...

5A The requirements in this IFRS, except for those in paragraphs B10–B16, also apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution to owners in their capacity as owners (held for distribution to owners) or as discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

In Appendix B, paragraph B17 is amended. New text is underlined and deleted text is struck through.

Summarised financial information for subsidiaries, joint ventures and associates (paragraphs 12 and 21)

...

B17 When an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified as held for sale, ~~or as held for distribution to owners~~ or as discontinued operations in accordance with IFRS 5 ~~*Non-current Assets Held for Sale and Discontinued Operations*~~, the entity is not required to disclose summarised financial information for that subsidiary, joint venture or associate in accordance with paragraphs B10–B16.

In Appendix C, paragraph C1D is added. New text is underlined.

Effective date and transition

...

C1D [Draft] *Annual Improvements to IFRS 2014–2016 Cycle*, issued in [date], added paragraph 5A and amended paragraph B17. An entity shall apply those amendments *retrospectively* for annual periods beginning on or after *1 January 2017*.