STAFF PAPER

July 2015

IASB Meeting

Project	**IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***
Paper topic	Next steps for a series of IFRS 5-related issues

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Purpose of paper

1. The purpose of this paper is to discuss and to ask for advice from the IASB on what the next steps should be regarding a series of issues relating to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* that the IFRS Interpretations Committee ('the Interpretations Committee') has discussed but has not yet resolved.

Summary of staff recommendation

2. The staff recommend that the IASB 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 for a potential broad-scope project on IFRS 5.

Structure of this paper

3. This paper is structured as follows:

   (a) background (paragraphs 4–10);

   (b) staff analysis and recommendation (paragraphs 12–33); and

   (c) Appendix A—Summary of the issues relating to IFRS 5 that the Interpretations Committee has previously discussed and that have not yet been resolved.

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 is partly because the Interpretations Committee felt that some of those issues 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 issue, the Interpretations Committee decided:

   (a) that it was time that the Interpretations Committee brought 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. The issues relating to IFRS 5 that the Interpretations Committee has discussed and that have not been resolved are as follows. These issues and the Interpretations Committee's tentative conclusions on them are summarised in Appendix A of this Staff Paper.

Scope

(a) Issue 1—the scope of the held-for-sale classification;

(b) Issue 2—Accounting for a disposal group consisting mainly of financial instruments;

Measurement

(c) Issue 3—Impairment of 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;

(d) Issue 4—Reversal of an impairment relating to goodwill in a disposal group;

(e) Issue 5—To what extent an impairment loss can be allocated to non-current assets within a disposal group;

Presentation

(f) Issue 6—Definition of discontinued operation and disclosures;

(g) Issue 7—Presentation of other comprehensive income (OCI) items for discontinued operations;

(h) Issue 8—How to apply the definition of 'major line of business' in presenting discontinued operations;

(i) Issue 9—How to present intragroup transactions between continuing and discontinued operations;

(j) Issue 10—How to apply the presentation requirements, in the case of a change to a plan, to a disposal group that consists of both a subsidiary and other non-current assets; and

Disclosure

(k) Issue 11—Applicability of the disclosure requirements in IFRS 12 to a subsidiary classified as held for sale.

Post-implementation Review (PIR)

7. The PIR process was introduced in 2007 as a mandatory step to the IASB's due process requirement. The objective of a PIR is to 'assess the effect of the new requirements on investors, preparers, and auditors.[1]

8. The IASB is required to conduct a PIR of each new Standard or major amendment after its mandatory effective date.[2] In addition, paragraph 6.55 of the IFRS Foundation *Due Process Handbook* states that a review must consider:

   (a) the issues that were important or contentious during the development of the Standard or amendment; as well as

   (b) the issues that have come to the attention of the IASB after the Standard or amendment was published.

9. The first Standard that was subject to a PIR is IFRS 8 *Operating Segments*, which became effective on 1 January 2009.

10. IFRS 5 has not been subject to a PIR because its mandatory effective date was shortly before the PIR process was introduced.

11. However, we note that paragraph 6.53 of the IFRS Foundation *Due Process Handbook* states that 'the IASB may decide to conduct a PIR […] in response to concerns about the quality of an IFRS that have been expressed by the Advisory Council, the Interpretations Committee, standard-setters or interested parties.'

Staff analysis and recommendation

12. We think that the fact that there are a number of IFRS 5-related issues that have not been resolved indicates that the Standard can be difficult to implement in practice and may need reviewing. In this section, we discuss alternative approaches to the next steps for IFRS 5-related issues that the IASB can take, with

[1] See paragraph 6.55 of the IFRS Foundation *Due Process Handbook.*

[2] See paragraph 6.55 of the IFRS Foundation *Due Process Handbook.*

our recommendation. We also discuss some issues that we think should be addressed in the short term.

Alternative approaches

Comprehensive review of IFRS 5

13. We think that one of the alternatives that the IASB could take in response to these IFRS 5-related issues is to address them comprehensively. Under this approach, all the existing issues known to the Interpretations Committee could be addressed at the same time, and this approach would also involve collection of information from stakeholders relating to other potential IFRS 5-related issues, so that they can be considered holistically with the existing issues.

14. We think that this approach has the following advantages:

    (a) this approach might identify issues that we are not aware of, and allow them to be addressed with the 11 known issues; and

    (b) this approach would likely result in greater consistency of requirements in any resulting revised Standard.

15. In contrast, a drawback of this approach is that it would not provide new guidance or amendments in the short term.

Comprehensive review of IFRS 5, with some issues to be addressed in the short term

16. We think that another alternative could be one dividing the issues into those to be addressed in the short term, and those to be addressed in the medium to longer term. The general idea of this approach is the same as the other approach (ie address the issues comprehensively). However, this approach identifies some of the issues as being suitable, in our opinion, to be addressed in the short term.

17. This approach shares the same advantages identified for the other approach. Additionally, an advantage of this approach is that it could provide guidance or clarification to the Standard in a timely manner, in respect of the issues to be addressed in the short term.

18. In contrast, in addition to the drawback identified for the other approach, drawbacks of this approach could be that:

    (a) amendments made earlier might be amended again as a result of different amendments that are issued later; and

    (b) longer-term amendments might be constrained by amendments made earlier.

Staff recommendation for the overall approach

19. On balance we recommend the latter approach for the advantages. We think that the additional drawbacks identified for such an approach that could arise by addressing the issues at different times can be alleviated by limiting the number of short-term issues.

20. Firstly, we are of the view that many unresolved IFRS 5 issues are a sign of a need to review IFRS 5.

21. Secondly, we think that the IASB should look at these issues by looking at them holistically with other potential issues. We note that the issues identified so far affect various aspects of IFRS 5 requirements. We are concerned that unless these issues are addressed comprehensively, the IASB could end up providing piecemeal guidance on the Standard and that some future amendments might not be consistent with other amendments that may be made at different times. Consequently, we are of the view that it is important that the IASB should address the issues comprehensively rather than individually, if the IASB were to decide to address the issues.

22. In this regard, we are of the view that including in the forthcoming agenda consultation a reference to a possible broad scope review on IFRS 5 is beneficial. This is because through such a consultation we could learn about the priority that the stakeholders place on the need to address the issues with IFRS 5 relative to other aspects on which the IASB could focus its resources.

23. However, we are of the view that there are some issues among the eleven issues that we think can be addressed relatively quickly and independently, considering

the scope of the issues and also the past discussions about them by the Interpretations Committee. We think that addressing some issues in the short term would lead to provision of a clarification to, or guidance on, IFRS 5 in a timely manner. Consequently, we think that we should address these issues separately in the short term. These potential short-term issues are discussed in paragraphs 25–33.

24. Consequently, we recommend that the IASB should address the IFRS 5-related issues by dividing them into those to be addressed in the short term and those to be addressed in the medium to longer term. We also recommend including in the forthcoming agenda consultation a reference to a possible broad-scope project on IFRS 5.

Questions for the IASB
1. Does the IASB agree with the staff recommendation that it should 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? 2. If the answer to Question 1 is yes, does the IASB agree with the staff recommendation that for the medium- to longer-term issues, it should make a reference to a potential broad-scope project on IFRS 5 in a request for views on the forthcoming agenda consultation?

Issues to be considered in the short term

25. We are of the view that if there are some issues that can be addressed relatively quickly and that do not interfere with other issues, they should be addressed in the short term. This is because they would result in providing a clarification to, or guidance on, IFRS 5 in a timely manner.

26. On the basis of the scope of the issues and also on the past discussions of the issues by the Interpretations Committee, we have identified the following issues as candidates for short-term issues:

as possible Interpretations Committee agenda decisions:

(a) Issue 5—To what extent an impairment loss can be allocated to non-current assets within a disposal group; and

(b) Issue 9—How to present intragroup transactions between continuing and discontinued operations.

These are issues on which the Interpretations Committee was able to reach tentative conclusions based on the existing guidance in IFRS 5.

27. We also think that Issue 11 (ie the disclosure issue) could be addressed as an annual improvement.

28. We think that the other issues should not be considered separately in the short term because:

(a) they would be unlikely to result in a timely solution because of their scope and complexity; and

(b) they are interrelated.

Possible agenda decisions

29. We are of the view that Issues 5 and 9 can be addressed in the short term because:

(a) at its meeting in May 2015, the Interpretations Committee almost tentatively concluded that sufficient guidance exists for these issues; and

(b) the scope of these issues is narrow.

30. Instead of issuing a tentative agenda decision on Issues 5 and 9, the Interpretations Committee decided to bring these issues to the IASB along with other issues. This is because the Interpretations Committee thought that doing so would give the IASB a better picture of where we are in relation to the IFRS 5-related issues as a whole.

31. In addition, we think that the scope of these issues is limited. Issue 5 relates to a measurement aspect of IFRS 5. We acknowledge that there are two other measurement-related issues (ie Issues 3 and 4), but we think that Issue 5 is different from those two issues. The difference is that the scope of Issue 5 is

limited to measurement of non-current assets that are within the measurement scope of IFRS 5, whereas the other measurement issues relate to measurement of assets and liabilities that are not within the measurement scope of IFRS 5. Because the scope of Issue 5 is narrow, we are of the view that it can be isolated from the other measurement issues and also from all the rest of the issues. We also think that the scope of Issue 9 is narrow and does not interfere with other aspects of the IFRS 5 requirements, because it relates only to a presentation of intragroup transactions between continuing and discontinued operations.

32. On the basis of this analysis, we are of the view that Issues 5 and 9 can and should be addressed through an agenda decision.

Possible annual improvement

33. We think that Issue 11 should be addressed in the short term through an annual improvement process. This is because:

(a) the discussion of the issue revealed that there is a potential unintended consequence that the IASB did not envisage when it developed IFRS 12;

(b) the scope of the issue is limited to the applicability of IFRS 12 to interests in other entities that are classified as held for sale; and

(c) we think that the IASB can address the issue by providing a clarification to the scope of IFRS 12 through an annual improvement.

Agenda Paper 12D provides detailed analysis of the issue and proposals for the annual improvement.

Questions for the IASB
4. Does the IASB agree with the staff recommendation that Issues 5 and 9 should be considered by the Interpretations Committee for possible tentative agenda decision items? 5. Does the IASB agree with the staff recommendation that Issue 11 should be addressed through an annual improvement process?

Appendix A—Summary of the issues relating to IFRS 5 that the Interpretations Committee has previously discussed, and that have not been resolved

A1 This appendix summarises the issues relating to IFRS 5 by their category that the Interpretations Committee has previously discussed, and that have not resolved.

Scope

Issue 1: the scope of the held-for-sale classification (discussed in November 2014, and March, and May 2015)

A2 This issue relates to whether certain types of loss of control, besides loss of control through outright sale, can result in a held-for-sale classification. Specifically, the Interpretations Committee discussed the following cases at its meeting in November 2014:

(a) Case 1—loss of control of a subsidiary due to dilution of the shares held by the entity;

(b) Case 2—loss of control of a subsidiary due to call options held by a non-controlling shareholder; and

(c) Case 3—loss of control of a subsidiary due to modification of the shareholders' agreement.

A3 As a result of the discussion, the Interpretations Committee asked the staff to consider the broader question of whether 'loss of control' is key to the inclusion of an event within the scope of IFRS 5, or whether there also needs to be a disposal in order for the event to be classified as held for sale.

A4 At its meeting in March 2015, the Interpretations Committee discussed the analysis included in the staff paper aimed to address this question.[3] As a result of the discussion, the Interpretations Committee concluded that it is important for the Interpretations Committee to better understand the objective of the scope of IFRS 5 so that it can then decide whether the issue can be addressed through an Interpretation or whether a broader amendment to IFRS 5 would be necessary.

[3] See Agenda Paper 9 for the Interpretations Committee's meeting in March 2015.

A5 At its meeting in May 215, the Interpretations Committee continued to discuss this issue and the Interpretations Committee noted that the original scope of the held-for-sale classification in IFRS 5 was narrow and that it included only sale transactions. The Interpretations Committee also observed that several amendments to the scope of IFRS 5 had emphasised that:

(a) the loss of control is a significant economic event and thus establishing the intention to lose control, which meets the IFRS 5 evidential requirements, triggers the held-for-sale classification provided other relevant criteria are met; and

(b) the focus on the method of recovery of the carrying amount of non-current assets (or disposal groups) had changed from sale transactions to a method other than continuing use.

A6 Consequently, the Interpretations Committee observed that the current objective for the scope of the held-for-sale classification in IFRS 5 is to capture non-current assets (or disposal groups) over which an entity is committed to lose control, irrespective of the form of the transaction (other than abandonment). The Interpretations Committee also reaffirmed that such classification must be supported by the fact that the non-current assets (or disposal groups) to be disposed of must be available for immediate disposal, and it is highly probable that the entity will lose control.

Issue 2: accounting for a disposal group consisting mainly of financial instruments (discussed in March 2015)

A7 This issue is about whether IFRS 5 applies to a disposal group that consists mainly, or entirely, of financial instruments. The submitter thinks that this issue is particularly relevant if it is expected that the disposal group will be sold at a loss (ie its fair value is lower than its carrying amount). The submitter states that in such situations, applying the requirement in paragraph 5 of IFRS 5 would imply that the loss is recognised only when the sale effectively occurs; this conflicts with the measurement principles set out in IFRS 5 for disposal groups that require measurement at fair value less costs to sell at the date of a 'disposal group' classification.

A8 The Interpretations Committee discussed this issue at its meeting in March 2015. As a result of the discussion, the Interpretations Committee noted that such a disposal group would meet the held-for-sale classification requirements that are set out in IFRS 5. However, the Interpretations Committee noted that the question about the measurement of such a disposal group is another example of the IFRS 5 measurement challenges that it had considered in the September 2014 meeting (Issue 3 in this appendix). Consequently, the Interpretations Committee noted that this issue could be considered along with other measurement issues that it had considered previously (Issues 3 and 4 in this Appendix).

Measurement

Issue 3: impairment of 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 (discussed in July and September 2009, September 2013 and September 2014)

A9 This issue relates to a situation in which the difference between the carrying amount and the fair value less costs to sell of a disposal group exceeds the carrying amount of non-current assets in the disposal group. The following are the alternative views with respect to this issue, which were identified by the submitter and discussed by the Interpretations Committee:

(a) View A—limit an impairment loss to non-current assets that are within the scope of the measurement requirements of IFRS 5;

(b) View B—limit an impairment loss to the net assets of a disposal group;

(c) View C—limit an impairment loss to the total assets of a disposal group; and

(d) View D—limit an impairment loss to non-current assets and recognise a liability for excess to ensure that a disposal group is measured at its fair value less costs to sell.

A10 The Interpretations Committee has discussed this issue four times at its past meetings. The outcome of the discussion was that the Interpretations Committee could not reach a consensus on this issue, noting that there were differing views among the Interpretations Committee members.

Issue 4: reversal of an impairment relating to goodwill in a disposal group (discussed in March and May 2010, and September 2013)

A11 This issue relates to a situation in which an impairment loss recorded for a disposal group that is classified as held for sale subsequently reverses. Specifically, the question focuses on whether an impairment loss relating to goodwill can be reversed.

A12 It does not relate to whether a reversal of an impairment loss should be allocated to goodwill (ie whether or not previously impaired goodwill is increased), but instead relates to whether the source of the reversal should include the one relating to goodwill. In other words, if the impairment recognised in the past included the impairment of goodwill, does this limit the amount of impairment reversal that can be recognised against other assets in the disposal group?

A13 The Interpretations Committee has discussed this issue three times at its past meetings. The outcome of the discussion was that the Interpretations Committee could not reach a consensus on this issue, noting that there were differing views among the Interpretations Committee members.

Issue 5: to what extent can an impairment loss be allocated to non-current assets within a disposal group (discussed in May 2015)

A14 This 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.

A15 The Interpretations Committee discussed this issue at its meeting in May and noted that in determining the order of an impairment 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.

A16 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 (Issues 3 and 4). This is 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.

Presentation

Issue 6: definition of discontinued operation and disclosures (discussed in September 2014)

A17 At its meeting in September 2014, the Interpretations Committee was informed of the IFRS 5-related issues that the IASB had previously considered but had not resolved.

A18 The Interpretations Committee noted that the IASB had previously attempted to revise the definition of a discontinued operation as part of a joint project with the US national standard-setter, the Financial Accounting Standards Board. It also noted that this project was included in the Financial Statement Presentation project.

Issue 7: presentation of OCI items for discontinued operations (discussed in September 2014)

A19 At its meeting in September 2014, the Interpretations Committee was informed of IFRS 5-related issues that the IASB had previously considered but had not resolved.

A20 The Interpretations Committee noted that the IASB had discussed how to present OCI items relating to discontinued operations as part of an annual improvement project at its meetings in July and December 2009. It also noted that the IASB had decided that any amendments reflecting the presentation and disclosure issues relating to OCI and accumulated OCI should be considered as part of the Financial Statement Presentation project.

Issue 8: how to apply the definition of 'major line of business' in presenting discontinued operations (discussed in March 2015)

A21 This issue is about how to interpret the definition of 'discontinued operation', especially with regard to the notion of 'separate major line of business or geographical area of operations' as described in paragraph 32 of IFRS 5. The submitter, with some examples, showed that the notion of separate major line of business or geographical area of operations can be interpreted differently depending on how an entity associates that notion with the definition of 'operating segment' as defined in IFRS 8 *Operating Segments*.

A22 The Interpretations Committee discussed this issue in March 2015 and noted that the definition of discontinued operations is an area that the IASB had attempted to revise in the former Financial Statement Presentation project, but had not resolved the issues related to this. Consequently, the Interpretations Committee noted that this issue could be considered along with the disclosure and presentation issues that it had considered in the September 2014 meeting (Issues 6 and 7 in this appendix).

Issue 9: how to present intragroup transactions between continuing and discontinued operations (discussed in May 2015)

A23 Paragraph 30 of IFRS 5 requires an entity to present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).

A24 This issue relates to how an entity eliminates transactions between continuing and discontinued operations on the face of the statement of profit or loss and OCI, when there are significant transactions between them. The submitter notes that the practice is mixed in this respect as follows:

(a) View A—eliminate such transactions without any adjustments;

(b) View B—eliminate such transactions, but make adjustments to reflect how transactions between continuing or discontinued operations will be reflected in continuing operations going forward; and

(c) View C—do not eliminate such transactions.

A25 The Interpretations Committee discussed this issue at its meeting in May 2015 and noted that there are no requirements or guidance in IFRS 5 or IAS 1 *Presentation of Financial Statements* in relation to the presentation of discontinued operations, which override the consolidation requirements in IFRS 10 *Consolidated Financial Statements*. Consequently, the Interpretations Committee tentatively concluded that an entity is required to eliminate intragroup transactions in full prior to determining the presentation of continuing and discontinued operations.

A26 Referring to paragraph 30 of IFRS 5, the Interpretations Committee also noted that entities may have to provide disclosures as necessary in order to enable users of financial statements to evaluate the financial effects of discontinued operations.

Issue 10: how to apply the presentation requirements, in the case of a change to a plan, to a disposal group that consists of both a subsidiary and other non-current assets (discussed in May 2015)

A27 For a non-current asset (or a disposal group) ceasing to be classified as held for sale that is not a subsidiary, paragraph 28 of IFRS 5 requires the effect of the measurement adjustment to be included in profit or loss in the period in which it ceases to be classified as such. If a change to a plan of sale involves a disposal group that is a subsidiary, joint operation, joint venture, associate or a portion of an interest in a joint venture or an associate, paragraph 28 requires retrospective amendments.

A28 The issue relates to two aspects of paragraph 28, which are:

(a) Issue 10.1—how to apply such requirements to a disposal group that consists of both subsidiaries, joint operations, joint ventures and/or associates and other non-current assets; and

(b) Issue 10.2—whether a retrospective amendment applies only to measurement or also to presentation.

A29 The Interpretations Committee discussed these issues at its meeting in May 2015 and noted, with respect to Issue 10.1, that the requirements in paragraph 28 are inconsistent, because when there has been a change to a sale plan, paragraph 28 of IFRS 5 requires the effects of a remeasurement of a disposal group that is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate, to be recognised retrospectively, whereas it requires the effects of a remeasurement of non-current assets to be recognised in the current period.

A30 With respect to Issue 10.2, the Interpretations Committee observed that the requirements in IFRS 5 are not clear on whether the term 'amended accordingly' in paragraph 28 of IFRS 5 refers only to measurement or whether it also refers to presentation when there has been a change to a sale plan.

A31 The Interpretations Committee tentatively decided that the possibility of amending the Standard to address the concerns noted in Issues 10.1 and 10.2 should be discussed with the IASB.

Disclosure

Issue 11: applicability of the disclosure requirements in IFRS 12 to a subsidiary classified as held for sale (discussed in May 2015)

A32 This issue relates to the interaction of the disclosure requirements in IFRS 5 and the disclosure requirements in IFRS 12. Paragraph 5B of IFRS 5 specifies that assets that are within the scope of IFRS 5 are not subject to the disclosure requirements in other Standards, unless those Standards specifically require disclosure with respect to such assets. Paragraph B17 of IFRS 12 clarifies that the disclosure requirements in paragraphs B10–B16 of IFRS 12 do not apply to interests within the scope of IFRS 12 that are classified as held for sale in accordance with IFRS 5.

A33 In the light of the requirements in these two Standards, the submitter thinks that it is unclear whether the rest of the disclosure requirements in IFRS 12 would apply to interests that are classified as held for sale.

A34 The Interpretations Committee discussed this issue at its meeting in May 2015 and observed that IFRS 12, when read in isolation, might imply that the disclosure requirements in IFRS 12 other than those in paragraphs B10–B16 of IFRS 12 would apply to the interests within the scope of IFRS 12 that are classified as held for sale or as discontinued operations.

A35 However, the Interpretations Committee noted that even if this was what the IASB intended when it developed IFRS 12, paragraph 5B of IFRS 5 is clear and IFRS 12 does not include a reference to IFRS 5 in relation to the any other specific IFRS 12 disclosure requirements. Consequently, the Interpretations Committee decided to bring the issue to the IASB and ask the IASB whether it thought it was necessary to clarify the scope of IFRS 12.