STAFF PAPER

September 2015

IFRS Interpretations Committee Meeting

Project	**IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***
Paper topic	Cover paper

CONTACT(S) Takashi Yamagami tyamagami@ifrs.org +44 (0)20 7246 6410

Introduction

1. Over the last few years, the IFRS Interpretations Committee ('the Interpretations Committee') has received and discussed a number of submissions related to IFRS 5. There are several issues that have still not been resolved.[1]

2. At its meeting in May 2015, the Interpretations Committee had its last discussion on these issues. At that meeting the Interpretations Committee decided to bring these issues to the IASB 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.

3. At its meeting in July 2015, the IASB discussed what the next course of action should be in relation to these IFRS 5-related issues, and agreed with a staff proposal to:

   (a) divide the issues into those that could be considered in the short term and those that could be considered in the medium to longer term; and

[1] For a summary of these issues, see Appendix A of this agenda paper.

(b) for the medium- to longer-term issues, to include a reference to the IFRS 5 concerns raised by the Interpretations Committee in the Request for Views for the Agenda Consultation.

4. In the light of the decisions made by the IASB, for this meeting we have prepared four agenda papers relating to the IFRS 5 issues. Those papers are:

Agenda Paper	**Paper topic**	**Purpose of the paper**
2A	Report back on the IASB's discussion on IFRS 5 issues	To report back to the Interpretations Committee on the IASB's discussions and decisions reached at the July IASB meeting
2B	To what extent can an impairment loss be allocated to non-current assets within a disposal group?	To propose to the Interpretations Committee that it should not add this issue to its agenda and to publish an agenda decision
2C	Presentation of intragroup transactions between continuing and discontinued operations	To propose to the Interpretations Committee that it should not add this issue to its agenda and to publish an agenda decision
2D	Proposal to publish a tentative agenda decision on various IFRS5-related issues	To propose to the Interpretations Committee that it should close the medium- to longer-term issues through the agenda decision 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.[2] 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

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

addressed through an Interpretation or whether a broader amendment to IFRS 5 would be necessary.

A5 At its meeting in May 2015, 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 previously recognised impairment losses 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. The

Interpretations Committee 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 that 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 with 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.