

STAFF PAPER

September 2015

IFRS Interpretations Committee Meeting

Project	IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>		
Paper topic	Presentation of intragroup transactions between continuing and discontinued operations		
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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') discussed several issues relating to application of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* at its meeting in May 2015. One of the issues related to how to present intragroup transactions between continuing and discontinued operations on the face of the statement of profit or loss and other comprehensive income.
2. After the discussion in May 2015, the Interpretations Committee decided to take all the IFRS 5-related issues that it had discussed, including this one, to the IASB in order to ask for advice from the IASB on what the next steps should be regarding the unresolved IFRS 5-related issues.
3. At its meeting in July 2015, the IASB agreed with the staff recommendation that this issue should be considered separately from the other issues for a potential agenda decision item.¹

¹ At its meeting in July 2015, the IASB discussed the next steps for a series of IFRS 5-related issues, including the selection of the issues that could be considered in the short term. See Agenda Paper 2A for a summary of the IASB's discussion and decisions.

4. The purpose of this paper is to provide:
 - (a) a summary of the issue;
 - (b) a summary of the staff analysis and original recommendation;
 - (c) a summary of the discussions by the Interpretations Committee and the IASB;
 - (d) a summary of the outreach results;
 - (e) staff analysis and recommendation; and
 - (f) proposed wordings for the tentative agenda decision.

5. The proposed wording for the tentative agenda decision and an excerpt on this issue from the May IFRIC *Update* can be found in Appendix A—Proposed wording for the tentative agenda decision, and Appendix B—Excerpt from the May IFRIC *Update*, respectively.

Summary of the issue

6. 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).

7. The issue relates to whether and how to eliminate transactions between continuing and discontinued operations on the face of the statement of profit or loss and other comprehensive income, when there are significant transactions between them.

8. In the absence of specific guidance on presentation dealing with this situation, the submitter notes that current practice is mixed in this respect as follows:
 - (a) View 1—eliminate intragroup transactions without any adjustments;
 - (b) View 2—eliminate intragroup transactions, but make adjustments to reflect how transactions between continuing or discontinued operations will be reflected in continuing operations going forward; and

- (c) View 3—do not eliminate intragroup transactions.

Summary of the staff analysis and original staff recommendation²

9. The following is a summary of our analysis that was presented to the Interpretations Committee in May 2015:
- (a) We noted that paragraph 30 of IFRS 5 requires provision of information that is useful in assessing the financial effects of discontinued operations and disposals of non-current assets (or disposal groups). However, we noted that there is no specific guidance in that Standard in relation to how to achieve the objective in paragraph 30 of IFRS 5 (for example, how to deal with elimination of intragroup transactions between continuing and discontinued operations).
- (b) We also noted that nothing in IFRS 5 or IAS 1 *Presentation of Financial Statements* overrides the consolidation requirements in IFRS 10 *Consolidated Financial Statements*. Consequently, we were of the view that there had to be some form of elimination entries dealing with the transactions between continuing and discontinued operations.
- (c) We noted that paragraph B86 of IFRS 10 requires elimination of intragroup transactions, rather than intragroup profit, because it requires the elimination in full of, among other things, intragroup income and expenses. We understood this to mean that an entity needs to eliminate intragroup sales only against the internal selling party and needs to eliminate intragroup purchases only against the internal purchasing party.

² Our full analysis can be found in [Agenda Paper 03B](#) for the Interpretations Committee's meeting in May 2015.

10. On the basis of our analysis, we presented our view that View 1 would be the only way to meet the requirements in IFRS 10 and reflect elimination of intragroup transactions between continuing and discontinued operations in the statement of profit or loss and other comprehensive income.
11. However, we were concerned that the information presented under View 1 may not result in the most useful information for assessing the financial effects of discontinued operations. Consequently, we proposed to the Interpretations Committee that it should take the issue to the IASB with a recommendation that the presentation under View 2 should be required on the face of the statement of profit or loss and other comprehensive income.

Summary of the discussions by the Interpretations Committee and the IASB

12. The following is a summary of the Interpretations Committee’s discussion at its meeting in May 2015:
 - (a) One member disagreed with View 1 and expressed a preference for View 3 because this member thought that the presentation under View 3 would be consistent with the presentation of inter-segment transactions in accordance with IFRS 8 *Operating Segments*.
 - (b) Other members of the Interpretations Committee generally agreed that View 1 would be appropriate under the current IFRSs. This was based on the reasoning provided in the staff analysis.
 - (c) However, they expressed concerns over the staff’s recommendation to amend IFRS 5 to require View 2 presentation on the face of the statement of profit or loss and other comprehensive income, because:
 - (i) They thought that it would be difficult to decide in which circumstances an entity is required to present information under View 2 on the face of the statement of profit or loss and other comprehensive income.

- They thought that making View 2 presentation a requirement would create a burden on preparers.
- (ii) In their view, ‘as-if’ information under View 2 would be pro-forma information and it would be more suitable for such information to be disclosed in the notes to the financial statements.
 - (iii) They thought that View 2 presentation could be departing from the principles of presentation of what actually happened during a reporting period. This is because the information produced under View 2 includes adjustments reflecting expected continuing involvement, which may or may not exist in the future.
- (d) Some members of the Interpretations Committee thought that paragraph 30 of IFRS 5 already requires disclosure of effects of intragroup transactions in the notes to the financial statements, if such information is necessary to enable users to understand the financial effects of discontinued operations.
13. In the light of the discussion as summarised above, we thought that this issue could be addressed through an agenda decision based on View 1. We were also of the view that this issue could be isolated from the other IFRS 5-related issues because of the lack of interrelationship of this issue with those other issues. Consequently, we recommended to the IASB at its meeting in July 2015 that this issue could be considered, separately from the other IFRS 5-related issues by the Interpretations Committee as a potential agenda decision.
14. At its meeting in July 2015, the IASB discussed our analysis and recommendation regarding the selection of short-term issues, and it generally agreed with our recommendation.
15. However, one IASB member expressed a concern over proceeding for an agenda decision on this issue separately from other issues. This is because this IASB member:

- (a) thought that the current requirements would lead to View 1, but that View 1 presentation would not always produce information that is consistent with the objective of IFRS 5; and
- (b) was concerned that this issue was not totally independent of other IFRS 5-related issues, because this IASB member thought that it related to the definition of discontinued operations.

Summary of the outreach results³

16. We performed outreach with members of the International Forum of Accounting Standard-Setters, securities regulators and global accounting firms, and we received 17 responses. We reported the results of this outreach to the Interpretations Committee at its meeting in May 2015. The responses can be summarised as follows:

- (a) About half of the respondents said that the issue is common in their jurisdiction, while a few respondents stated that the issue is not common in their jurisdiction.
- (b) Some respondents stated that the predominant accounting treatment is consistent with View 1, while other respondents stated that it was consistent with View 2.
- (c) Six respondents stated that there is diversity in practice with respect to this issue.

Agenda criteria assessment

Agenda criteria	
We should address issues (see paragraph 5.16 of the <i>IFRS Foundation Due Process Handbook</i>):	
that have widespread effect and have, or are expected to have, a material effect on	Yes , in our outreach activity, overall, many respondents said that the issue is common.

³ For details, see [Agenda Paper 3B](#) for the Interpretations Committee’s meeting in May 2015.

Agenda criteria	
those affected.	
in which financial reporting would be improved through the elimination, or reduction, of diverse reporting methods.	Yes , as shown in the outreach results, there is diversity in practice with respect to this issue. However, we are of the view that the presentation should be consistent with View 1 under the current IFRSs.
that can be resolved efficiently within the confines of existing IFRS and the <i>Conceptual Framework for Financial Reporting</i> .	No , we think that if presentation under View 2 was to be pursued, it would require an amendment to the Standard because in our view, the current IFRSs require presentation under View 1. However, we think that such an amendment would require a broader project than the Interpretations Committee could undertake.
In addition:	
Is the issue sufficiently narrow in scope that the Interpretations Committee can address it in an efficient manner, but not so narrow that it is not cost-effective for it to undertake the due process that would be required when making changes to IFRS (see paragraph 5.17 of the <i>IFRS Foundation Due Process Handbook</i>)?	N/A
Will the solution developed by the Interpretations Committee be effective for a reasonable time period (see paragraph 5.21 of the <i>IFRS Foundation Due Process Handbook</i>)? (The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified).	N/A

Staff analysis and staff recommendation

17. Consistently with our analysis presented to the Interpretations Committee in May 2015, we are of the view that under the current IFRSs there are no requirements overriding the consolidation requirements of IFRS 10. Consequently, in our view, entities should follow presentation under View 1. Additionally, we note that paragraph 30 of IFRS 5 requires disclosure of effects of intragroup transactions in the notes to the financial statements, if such information is necessary to enable users to understand the financial effects of discontinued operations.

18. Notwithstanding our analysis above, we acknowledge that information under View 1 would not always lead to the most relevant information on the face of the statement of profit or loss and other comprehensive income.
19. However, in our view, any amendment that requires information under View 2 on the face of the statement of profit or loss and other comprehensive income would require a broader project than the Interpretations Committee could undertake.
20. Consequently, we recommend that the Interpretations Committee should not add the issue to its agenda to amend IFRS 5 to require View 2 presentation on the face of the statement of profit or loss and other comprehensive income. The proposed wording for the tentative agenda decision is set out in Appendix A of this paper.

Questions for the Interpretations Committee

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

Appendix A—Proposed wording for the tentative agenda decision

A1. We propose the following wording for the tentative agenda decision.

IFRS 5 Non-current Assets Held for Sale Discontinued Operations—how to present intragroup transactions between continuing and discontinued operation

The Interpretations Committee received a request to clarify how to present intragroup transactions between continuing and discontinued operations.

The submitter points out that 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). However, IFRS 5 does not provide specific guidance on how to eliminate intragroup transactions between continuing and discontinued operations.

The Interpretations Committee 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 noted that an entity would have to eliminate intragroup transactions in full prior to determining the presentation of continuing and discontinued operations.

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

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.

Appendix B—Excerpt from the May IFRIC Update

Issue 2: how to present intragroup transactions between continuing and discontinued operation

The Interpretations Committee 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. 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.