STAFF PAPER

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IFRS Interpretations Committee Meeting

Project	**IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations***
Paper topic	Presentation of intragroup transactions between continuing and discontinued operations

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Introduction

1. The IFRS Interpretations Committee ('the Interpretations Committee') received a request to clarify the application of the requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The request related to how to present intragroup transactions, between continuing and discontinued operations, on the face of the statement of profit or loss.

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 current Standards 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 reconsider its tentative agenda decision and transfer the issue to another agenda decision that deals with various IFRS 5 issues.

4. This Agenda Paper is structured as follows:

(a) a summary of the issue and the Interpretations Committee's tentative conclusion;

(b) comment letter summary;

(c) staff analysis;

(d) staff recommendation; and

(e) Appendix A—Comment letters.

Summary of the issue and the Interpretations Committee's tentative conclusion

5. 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).

6. The issue relates to whether that would be appropriate and, if so, how best to eliminate transactions between continuing and discontinued operations on the face of the statement of profit or loss, when there are significant transactions between them.

7. In the absence of specific guidance on this matter, the submitter noted that current practice was mixed 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.

8. With respect to this issue, the Interpretations Committee noted that:

   (a) there were no requirements, nor any guidance, in IFRS 5 or IAS 1 *Presentation of Financial Statements* in relation to the presentation of discontinued operations that overrides the consolidation requirements in IFRS 10 *Consolidated Financial Statements*; and

(b) paragraph B86(c) of IFRS 10 requires the elimination of, among other things, income and expenses relating to intragroup transactions, and not merely intragroup profit. The Interpretations Committee understood this to mean that an entity needs to eliminate intragroup sales against the internal selling party and intragroup purchases against the internal purchasing party.

9. Consequently, the Interpretations Committee's tentative conclusion was consistent with View 1.

10. The Interpretations Committee also observed that depending on an entity's facts and circumstances, the entity may have to provide additional information in the notes to the financial statements, in order to meet the objective of IFRS 5, which is to provide information that should enable users to evaluate the financial effects of discontinued operations.

11. Based on its analysis, the Interpretations Committee tentatively decided not to take the issue onto its agenda because it thought that sufficient guidance existed.

Comment letter summary

12. The comment period for the tentative agenda decision ended on 23 November 2015. We received ten comment letters[1] on the tentative agenda decisions.

13. Three respondents agreed with the technical analysis in the tentative agenda decision but they also thought that either:

(a) the conclusion did not seem to be consistent with the objective of IFRS 5; or

(b) the View 1 presentation may not provide relevant information.

[1] European Securities and Markets Authority (ESMA), Accounting Standards Committee of Germany (ASCG), Deloitte, KPMG, EY, PwC, MAZARS, acteo, Chartered Accountants Ireland, and Norsk RegnskapsStiftelse

Consequently, some of them commented that this issue should be escalated to the IASB.

14. Main messages from the other respondents were that:

(a) depending on facts and circumstances, the View 1 information would not be consistent with the objective of IFRS 5, and consequently, it might not be useful; and

(b) it was not appropriate to merely close the issue through an agenda decision, with the reasons provided in the tentative agenda decision. Instead, this issue should be considered as part of a possible comprehensive review of IFRS 5.

15. A few of the respondents (KPMG, Deloitte and PwC) were concerned that the wording of the tentative agenda decision was too restrictive to allow presentation other than in accordance with View 1. They agreed that intragroup transactions should be eliminated in full, in accordance with IFRS 10, but thought that IFRS 10 was not clear enough to impose only View 1 information.

16. In this respect, PwC stated:

> We believe that the agenda decision goes beyond clarifying or explaining the requirements of IFRS 5. Instead, it will establish a single rule for applying a presentation standard without adequate due process. This may well lead to key figures in the income statement and earnings per share that are misleading and do not provide decision useful information.

17. Deloitte also explained that:

> IFRS 10 makes no reference to the specific journal entries required to achieve this elimination at an overall group level (including continuing and discontinued operations). In fact, for transactions between continuing operations there is no need to allocate the

> elimination of sales and purchases to any particular party within the group.

Staff analysis

Attribution of elimination entries

18. Two respondents (Deloitte and PwC) noted that IFRS 10 is silent on how to attribute elimination entries to each entity within a group. Consequently, they were of the view that the wording for the tentative agenda decision is too restrictive. In particular, they were concerned about the following sentence in the tentative agenda decision:

> The Interpretations Committee understood this to mean that an entity needs to eliminate intragroup sales against the internal selling party and intragroup purchases against the internal purchasing party.

19. This is because the sentence effectively precludes an entity from presenting information in any other way than in accordance with View 1.

20. In reaching this tentative conclusion, we noted that:

    (a) paragraph B86 of IFRS 10 requires elimination of intragroup transactions, instead of intragroup profit, because it requires the elimination in full of, among other things, intragroup income and expenses; and

    (b) when there are intragroup transactions between entities within a group, it would be the internal selling party that has intragroup income, and it would be the internal purchasing party that has intragroup expenses.

    Consequently, we understood the requirement to mean that such intragroup transactions have to be eliminated in a way that elimination of income and expenses are attributed to the respective entities that originally recognised them, because it is each of these entities that recognised intragroup income and expenses to be eliminated.

21. We still think the Interpretations Committee's reasoning behind its tentative agenda decision is sound, however we acknowledge the concern expressed by PwC that keeping in an agenda decision the sentence included in paragraph 18 of this Agenda Paper goes beyond clarifying the requirements of IFRS 5 and IFRS 10.

22. Consequently, we recommend that a final agenda decision, if separately published on this issue, should remove the sentence that effectively imposes only View 1 (ie the sentence included in paragraph 18 of this Agenda Paper).

23. We will discuss in the following section whether this presentation issue should be addressed through a separate agenda decision, as originally proposed, or should be transferred to the other agenda decision that deals with various IFRS 5 issues.

Should this issue be considered as part of a possible comprehensive review of IFRS 5?

24. The Interpretations Committee tentatively decided to address two IFRS 5 issues[2] in the short-term through an agenda decision. This was because it thought that doing so would result in providing clarification, or guidance, on IFRS 5 in a timely manner.

25. In selecting these short-term issues, the Interpretations Committee took into consideration the fact that:

    (a) the scope of these issues is narrow; and

    (b) the Interpretations Committee came close to a tentative conclusion that sufficient guidance exists for these issues at its past meeting.

    Consequently, the Interpretations Committee thought that these two issues could be addressed relatively quickly and independently. It thought that in doing so, it could provide a useful clarification in a timely manner.

[2] The two issues are the presentation issue discussed in this Agenda Paper and one of the measurement issues discussed in Agenda Paper 7A at this Interpretations Committee meeting.

26. However, we acknowledge the concerns that many respondents expressed that the wording of the tentative agenda decision would lead to presentation of financial information that is not consistent with the objective of IFRS 5. We think that this would be contrary to the purpose of an agenda decision, which is to be helpful.

27. We think that this would be the case if an agenda decision were to be published, which reflects a removal of the sentence in paragraph 18 of this Agenda Paper. This is because we think that View 1 presentation would still be possible and diversity in practice between View 1 and View 2 presentation would be likely to continue after the publication of such an agenda decision. Consequently, we think that such a revised agenda decision would not be as useful as we originally intended.

28. Together with the discussion in the previous section, we now think that this issue would not meet the Interpretations Committee's expectation and the criteria that it considered in selecting the short-term issues as described in paragraph 25 of this Agenda Paper.

29. Consequently, we recommend that the Interpretations Committee should not pursue this issue through a separate agenda decision.

30. If the Interpretations Committee agrees with our recommendation not to pursue the issue through a separate agenda decision, we recommend that the Interpretations Committee should not add this issue onto its agenda to pursue a possible narrow-scope amendment. This is because it would not be consistent with the Interpretations Committee's decision to deal with in the short term only those issues for which the Interpretations Committee thought that the requirements were currently clear.

31. Consequently, we recommend that the Interpretations Committee should transfer this issue to the other agenda decision that deals with various IFRS 5 issues.

Staff recommendation

32. On the basis of our analysis, we recommend that the Interpretations Committee should transfer this issue to another agenda decision that deals with various IFRS 5 issues (ie the one addressed in Agenda Paper 7C), instead of separately finalising the tentative agenda decision on this issue.

Question for the Interpretations Committee
Does the Interpretations Committee agree with the staff's recommendation that it should transfer this issue to another agenda decision that deals with various IFRS 5 issues (ie the one addressed in Agenda Paper 7C)?