

STAFF PAPER

January 2016

IFRS Interpretations Committee Meeting

Project	IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>		
Paper topic	Proposed agenda decision on various IFRS 5-related issues		
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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’) has discussed a number of implementation issues relating to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* over the last few years.
2. In the light of the fact that many of these issues had not been resolved, the Interpretations Committee decided to bring the issues to the attention of 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 decided to:
 - (a) divide the 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- and longer-term issues, make a reference in the Request for Views (‘the RfV’) on the *2015 Agenda Consultation* (‘the 2015 Agenda Consultation’) to a potential broad-scope project on IFRS 5.

4. Subsequently, in August 2015 the IASB published the RfV on the 2015 Agenda Consultation, which referred to a number of IFRS 5 issues as a possible additional research project.
5. In response to this action by the IASB, the Interpretations Committee decided to publish a tentative agenda decision for the medium- to longer-term issues. This was because the Interpretations Committee thought such a tentative agenda decision would be helpful, because:
 - (a) it would acknowledge that the issues subject to the agenda decision remain unresolved, but that the Interpretations Committee would no longer discuss these issues in the short term or unless and until there is a request to do so by the IASB; and
 - (b) through the agenda decision process, the Interpretations Committee can solicit comments on its decision not to address these issues in the short term.
6. 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 finalise the tentative agenda decision.
7. This Agenda Paper is structured as follows:
 - (a) comment letter summary;
 - (b) staff analysis;
 - (c) staff recommendation;
 - (d) Appendix A—Proposed wording for the final agenda decision; and
 - (e) Appendix B—Comment letters.

Comment letter summary

8. The comment period for the tentative agenda decision ended on 23 November 2015. We received four comment letters from:

- (a) Australian Accounting Standards Board (AASB);
 - (b) MAZARS;
 - (c) Accounting Standards Committee of Germany (ASCG); and
 - (d) Deloitte.
9. One respondent (Deloitte) agreed with the tentative agenda decision for the reasons provided in the tentative agenda decision. It also noted that the number of unresolved issues shows a necessity for some Standard-setting activity on IFRS 5. It thought that such activity should consider not only the issues included in the tentative agenda decision, but also the issue relating to the presentation of intragroup transactions between continuing and discontinued operations.
10. Two respondents (MAZARS and the ASCG) commented on the selection of issues that should be covered by the tentative agenda decision as follows:
- (a) MAZARS thought that it would be preferable if the Interpretations Committee addressed the measurement issues that are covered by the tentative agenda decision in the short term; on the other hand
 - (b) the ASCG disagreed with concluding on some issues (ie the issues covered in Agenda Papers 7A and 7B for this meeting) now while putting other issues on hold.
11. Another respondent (the AASB) supports the Interpretations Committee’s decision not to address these issues in the short term. However, it questions whether an agenda decision would be the right tool to communicate such a decision. In this respect, it commented:
- the AASB thinks there is a difference between not adding issues to the Committee’s agenda, and deferring deciding whether to add an issue to its agenda or continue discussing an issue. The AASB is of the view that it is not appropriate for an agenda decision to be finalised to complete issues that are being ‘parked’ pending the outcome of a related project. Accordingly, the AASB recommends that the

Committee **not** finalise its tentative agenda decision, but to minute the decision to defer any further discussion of the IFRS 5 issues for the interim.

Staff analysis

Issues to be covered by the agenda decision

12. MAZARS and the ASCG commented on the selection of issues to be covered by the agenda decision. MAZARS thought that some of the issues could be addressed in the short term, while the ASCG recommended that every unresolved issue should be included in the tentative agenda decision that is covered in this Agenda Paper, instead of separately publishing tentative agenda decisions for some issues (ie the issues covered in Agenda Papers 7A and 7B for this meeting).
13. As discussed in detail in Agenda Paper 7A for this meeting, with respect to MAZARS' comment about addressing the measurement issues in the short term, we think that these issues should stay in the agenda decision covered in this Agenda Paper. This is because we think that these measurement issues are too broad for the Interpretations Committee to address in the short term. We think that this is supported by the fact that even after these issues had been discussed at multiple Interpretations Committee meetings, they remain unresolved.
14. With respect to the ASCG's comment that the Interpretations Committee should not publish separate agenda decisions for individual issues, we agree with its comment only with respect to the issue relating to the presentation of intragroup transactions between continuing and discontinued operations (ie the issue that is covered by Agenda Paper 7B for this meeting). This is because, as discussed in detail in Agenda Paper 7B, we acknowledge the concerns raised about stating there is sufficient guidance with respect to the issue. Consequently, we think that the issue covered by Agenda Paper 7B

should be transferred to the tentative agenda decision covered in this Agenda Paper.

15. However, with respect to the measurement issue that is addressed in Agenda Paper 7A for this meeting, we still think that the Interpretations Committee should publish a separate agenda decision for that issue, because we think that:
- (a) the scope of the issue is limited;
 - (b) there is sufficient guidance with respect to the issue; and
 - (c) separately publishing an agenda decision for the issue provides a clarification to, or guidance on, IFRS 5 in a timely manner, which would contribute to reduction in diversity in practice.
16. Consequently, we recommend that the Interpretations Committee should not change the selection of the issues that are covered by the agenda decision addressed in this Agenda Paper, except for the addition of the issue relating to the presentation of intragroup transactions between continuing and discontinued operations.

Is an agenda decision appropriate?

17. The AASB thinks that an agenda decision is not appropriate to ‘complete issues that are being ‘parked’ pending the outcome of a related project’. It notes that ‘rejection notices ‘should be seen as helpful, informative and persuasive’.¹ Consequently, it recommends that the Interpretations Committee should not finalise the tentative agenda decision, but that it should instead minute the decision to defer any further discussion of the IFRS 5 issues that are covered by the tentative agenda decision.
18. We do not entirely agree with the AASB and think that the Interpretations Committee should finalise the tentative agenda decision. We hold this view because:

¹ <http://www.ifrs.org/How-we-develop-Interpretations/Pages/Setting-the-agenda.aspx>

- (a) we do not expect that there would be a difference between finalising the tentative agenda decision now and sometime later after the IASB considers the feedback on the RfV on the 2015 Agenda Consultation; and
 - (b) while we agree that the rejection notice should be informative, we think that the degree of information provided in a rejection notice differs depending on the outcome reached and communicated through such a notice.
19. With respect to point (a) above, we think that it would make sense to postpone finalising the agenda decision until the 2015 Agenda Consultation is complete, if waiting for the completion of the 2015 Agenda Consultation would make a difference. In other words, we think that the tentative agenda decision should be finalised now if waiting for the finalisation of the tentative agenda decision until the completion of the 2015 Agenda Consultation does not make a difference.
20. In this respect, we think that there would not be a significant difference between finalising the agenda decision now and waiting for the finalisation until the completion of 2015 Agenda Consultation. This is because:
- (a) the Interpretations Committee thinks that the issues that are covered by the tentative agenda decision are too broad for the Interpretations Committee to undertake;
 - (b) the Interpretations Committee has already referred the issues to the IASB, which led to the inclusion of a reference to a potential research project on IFRS 5 in the RfV on the 2015 Agenda Consultation; and
 - (c) it would be the IASB and not the Interpretations Committee that would make a decision on whether or not to create a new research project on IFRS 5. In other words, we think that the Interpretations Committee would not resume discussing these issues unless and until there is a request to do so by the IASB.
21. Consequently, we recommend that the Interpretations Committee should finalise the tentative agenda decision now, instead of waiting for the

completion of the 2015 Agenda Consultation, because we do not think that there would be a difference between finalising the tentative agenda decision now and finalising it some time later.

22. To be consistent with our analysis, we also recommend that the wording included in the penultimate paragraph of the tentative agenda decision should be modified, which reflects the removal of the following sentence:

The Interpretations Committee concluded that it was better to wait until the *2015 Agenda Consultation* is completed before further discussing any of these issues.

23. With respect to point (b) in paragraph 18, we think that there are a number of reasons why the Interpretations Committee could decide not to take an issue onto its agenda. We think that depending on its reasons, the information that can and should be included in an agenda decision differs. Those reasons, among other things, include:

- (a) when the Interpretations Committee concludes that there is sufficient guidance with respect to an issue;
- (b) when the Interpretations Committee concludes that an issue is too broad for the Interpretations Committee to consider; and
- (c) when the feedback on the outreach shows and the Interpretations Committee concludes that there is no diversity in practice with respect to an issue.

24. In our view, in a situation in which the Interpretations Committee decides not to take an issue onto its agenda because it concludes that there is sufficient guidance with respect to the issue, it should provide a persuasive rationale to support its conclusion, which then makes the agenda decision informative and helpful.

25. With respect to the tentative agenda decision that we are dealing with in this Agenda Paper, we note that this falls into a category of (b) in paragraph 23. Because of the different nature of reasons for rejection, we think that the

information that can be included in an agenda decision would be limited when compared with agenda decisions based on the reason (a) in paragraph 23.

26. However, we think that, as the AASB suggests, the final agenda decision can be improved by explaining:

- (a) why the issues have been raised; and
- (b) why the issues remain unresolved at this time; in other words, why the Interpretations Committee will not continue to consider these issues.

27. On the first point, we recommend that the final agenda decision should include the following sentence in the first paragraph of the agenda decision to explain why the issues have been raised:

Submitters raised these issues because they thought that the requirements of IFRS 5 with respect to the following issues were not clear, which they thought either had already led to diversity in practice or might do so in the future.

28. On the second point, we recommend that the agenda decision should acknowledge that these issues are too broad for the Interpretations Committee to address. We think that this would be consistent with the Interpretations Committee's recommendation to the IASB to consider performing a broad-scope review of IFRS 5.

Staff recommendation

29. On the basis of our analysis, we recommend that the Interpretations Committee should finalise the tentative agenda decision, which reflects:

- (a) the addition of the issue relating to the presentation of intragroup transactions between continuing and discontinued operations;
- (b) an explanation of why these issues have been raised; and
- (c) an acknowledgment that the issues covered in the agenda decision are too broad for the Interpretations Committee to deal with.

Questions for the Interpretations Committee

1. Does the Interpretations Committee agree with the staff's recommendation that it should finalise its decision not to add the issues to its agenda, reflecting the points set out in paragraph 29?
2. If the answer to Question 1 is 'Yes', does the Interpretations Committee agree with the wording of the final agenda decision in Appendix A of this paper?

Appendix A—Proposed wording for the final agenda decision

- A1. We propose the following wording for the final agenda decision. The new text is underlined and deleted text is struck through.

IFRS 5 Non-current Assets Held for Sale Discontinued Operations—various IFRS 5-related issues

The Interpretations Committee has received and discussed a number of issues relating to the application of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requirements over a number of its meetings. Submitters raised these issues because they thought that the requirements of IFRS 5 with respect to the following issues were not clear, which they thought either had already led to diversity in practice or might do so in the future. Those issues relate to various aspects of the IFRS 5 requirements and include the following:

Scope

- a. the scope of the held-for-sale classification—paragraph 6 of IFRS 5 requires a non-current asset (or disposal group) to be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The issue relates to whether certain types of planned loss of control events, besides loss of control through sale or distribution, can result in a held-for-sale classification, such as loss of control of a subsidiary due to dilution of the shares held by the entity, call options held by a non-controlling shareholder or a modification of a shareholders' agreement. Should planned loss of control events in any of these circumstances fall within the scope of IFRS 5?
- b. accounting for a disposal group consisting mainly of financial instruments—paragraph 5 of IFRS 5 exempts from the measurement requirements of IFRS 5, among other things, financial assets within the scope of IFRS 9 Financial Instruments. The issue relates to whether IFRS 5 applies to a disposal group that consists mainly, or entirely, of financial instruments. Should such a disposal group be within the scope of IFRS 5 in terms of the classification and/or measurement requirements of IFRS 5?

Measurement

- c. impairment of a disposal group—paragraph 15 of IFRS 5 requires a disposal group to be measured at the lower of its carrying amount and its fair value less costs to sell, whereas paragraph 23 requires the impairment loss recognised for a disposal group to be allocated to the carrying amount of the non-current assets that are within the scope of the measurement requirements of IFRS 5. The 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. Should the amount of impairment losses be limited to the carrying amount of:
 - i. non-current assets that are within the scope of the measurement requirements of IFRS 5;

- ii. the net assets of a disposal group;
 - iii. the total assets of a disposal group; or
 - iv. the non-current assets and recognise a liability for the excess, if any?
- d. reversal of an impairment loss relating to goodwill in a disposal group— paragraph 22 of IFRS 5 requires the recognition of a gain for a subsequent increase in fair value less costs to sell of a disposal group. The issue relates to a situation in which goodwill that is included in the disposal group has previously been impaired. Specifically, the question focuses on whether an impairment loss previously allocated to goodwill can be reversed. Should the allocation of all or part of a previous impairment loss to goodwill limit the amount of impairment reversal that can be recognised against other assets in the disposal group?

Presentation

- e. how to apply the definition of ‘major line of business’ in presenting discontinued operations—in accordance with paragraph 32 of IFRS 5, if a component of an entity has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, it is a discontinued operation. The issue is 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.
- f. how to apply the presentation requirements in paragraph 28 of IFRS 5— paragraph 28 requires the effects of a remeasurement (upon ceasing to be classified as held for sale) 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 such a remeasurement of non-current assets to be recognised in the current period. The issue relates to a situation in which there has been a change to a plan to dispose of a disposal group that consists of both a subsidiary and other non-current assets, and that such a change results in the disposal group no longer being classified as held for sale. In such a situation, should the remeasurement adjustments relating to the subsidiary and the other non-current assets be recognised in different accounting periods, and should any retrospective amendment apply to presentation as well as to measurement?
- g. how to present intragroup transactions between continuing and discontinued operations—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). 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. Should the intragroup transactions:
- i. be eliminated in full without any adjustments;
 - ii. be eliminated, with adjustments to reflect how transactions between continuing or discontinued operations will be reflected in continuing

- iii. operations going forward; or
not be eliminated?

~~The Interpretations Committee noted that the IASB has recently published a Request for Views *2015 Agenda Consultation* to gather views on the strategic direction and the balance of the work plan of the IASB, and that IFRS 5 was described as a possible research project in that document. The Interpretations Committee concluded that it was better to wait until the *2015 Agenda Consultation* is completed before further discussing any of these issues.~~

The Interpretations Committee noted that these issues are too broad for the Interpretations Committee to address. It also noted that the number and variety of unresolved issues is an indication that a broad-scope project on IFRS 5 is necessary. In this respect, the Interpretations Committee noted that IFRS 5 was described as a possible research project in the Request for Views on the *2015 Agenda Consultation* published by the IASB in August 2015.

Consequently, the Interpretations Committee {decided} not to add these issues to its agenda.