IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations (July 2007)

Plan to sell the controlling interest in a subsidiary

The IFRIC was asked to provide guidance on applying IFRS 5 when an entity is committed to a plan to sell the controlling interest in a subsidiary. The request considered situations in which the entity retained a non-controlling interest in its former subsidiary, taking the form of either an investment in an associate, an investment in a joint venture or a financial asset. The submitter raised four issues relating to the consolidated financial statements of the entity:

- What triggers classification of the subsidiary's assets and liabilities as held for sale under IFRS 5?
- When classification as held for sale is required, should all the subsidiary's assets and liabilities be classified as held for sale or only the portion to be sold?
- Is classification as a discontinued operation relevant when the entity plans to retain significant influence over its former subsidiary after the sale?
- After the sale, how should the remaining noncontrolling equity investment be measured?

In considering the first two issues, the IFRIC noted that paragraph 6 of IFRS 5 states: 'An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use' [emphasis added]. The IFRIC decided to recommend to the Board that it amend IFRS 5 to clarify whether the criteria for classification as held for sale are met for all of a subsidiary's assets and liabilities when the parent is committed to a plan that involves loss of control over the subsidiary. The IFRIC believed that IFRS 5 should be amended to clarify that having a plan that meets the conditions in IFRS 5 involving loss of control over a subsidiary should trigger classification as held for sale of all the subsidiary's assets and liabilities. On the third issue, the IFRIC noted that a disposal group classified as held for sale will also be a discontinued operation if the criteria of paragraph 32 of IFRS 5 are met. Because the IFRIC did not expect divergence to emerge in practice, it decided not to address the issue. The IFRIC also noted that IFRS/US GAAP differences are likely to arise until a common definition of discontinued operations is adopted with a consistent approach to continuing involvement (as discussed in BC70 of IFRS 5). The IFRIC noted that the last issue is being considered in the Board's joint project on business combinations and, therefore, decided not to address that issue