

Classification in conjunction with a planned IPO, but where the prospectus has not been approved by the securities regulator

The Interpretations Committee received a request to clarify the application of the guidance in IFRS 5 regarding the classification of a non-current asset (or disposal group) as held for sale, in the case of a disposal plan that is intended to be achieved by means of an initial public offering (IPO), but where the prospectus (ie the legal document with an initial offer) has not yet been approved by the securities regulator. The submitter asked the Interpretations Committee to clarify whether the disposal group would qualify as held for sale before the prospectus is approved by the securities regulator, assuming that all of the other criteria in IFRS 5 have been fulfilled. The Interpretations Committee noted that paragraph 7 of IFRS 5 requires that the asset (or disposal group) must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be *highly probable*. The Interpretations Committee also noted that an entity should apply the guidance in paragraphs 8-9 of IFRS 5 to assess whether the sale of a disposal group by means of an IPO is *highly probable*. Terms that are "usual and customary" is a matter of judgement based on the facts and circumstance of each sale. The Interpretations Committee observed that the following criteria in paragraph 8 of IFRS 5 represent events that must have occurred:

- a. the appropriate level of management must be committed to a plan to sell the asset (or disposal group);
- b. an active programme to locate a buyer and complete the plan must have been initiated; and
- c. the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value.

The Interpretations Committee noted that the following criteria would be assessed based on expectations of the future, and their probability of occurrence would be included in the assessment of whether a sale is highly probable:

- a. the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification (except as permitted by paragraph 9);
- b. actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn; and
- c. the probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable. On the basis of the analysis above, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary. The Interpretations Committee consequently decided not to add this issue to its agenda.