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International Accounting Standards Board

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: **September 2007, London**

Project: **Whether an entity should apply IFRS 5 to the assets to be distributed after it declares non-cash distributions? (Agenda Paper 2D)**

THE PURPOSE OF THIS PAPER

1. IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires an entity to 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 (see paragraph 6 of IFRS 5).

2. Paragraph 15 of IFRS 5 requires an entity to measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

3. A distribution is not a sale transaction. However, from the perspective of the entity that makes the distribution, the consequences of a sale and a distribution are the same. The entity loses the future economic benefits of (and, in most cases, loses control over) the assets distributed.

4. Therefore, this paper discusses whether, after an entity declares non-cash distributions, it should apply the classification and measurement requirements in IFRS 5 to the assets to be distributed.

5. This issue is particularly relevant to a situation in which an entity distributes to its equity holders its ownership interests in a subsidiary (other than to effect a group restructuring – see Paper 2C). When a disposal group is classified as held for sale in accordance with IFRS 5, IFRS 5 requires the disposal group in its entirety to be measured at fair value less costs to sell and any impairment losses to be allocated to the assets and liabilities of the disposal group[1].

6. This paper considers the following two situations:

   - the distribution results in the loss of control over the assets distributed; and
   - the distribution does not result in the loss of control over the assets distributed.

7. This paper doses not consider whether assets to be distributed should be remeasusred at the time the entity declares the distributions. At the July 2007 IFRIC meeting, the IFRIC discussed the issue. Some IFRIC members argue that there are no current IFRSs that support the remeasurement of assets to be distributed.

SITUATION 1 – AN ENTITY WILL LOSE CONTROL OVER THE ASSETS DISTRIBUTED

8. After an entity declares non-cash distributions, the relevant assets concerned will no longer be recovered principally through use. This consequence is similar to a situation in which an entity is committed to a plan to sell the assets. For this reason, the staff believes that after it declares the distributions an entity should apply the measurement and disclosure requirements in IFRS 5 to the assets to be distributed.

9. In a situation in which an entity declares a distribution that involves an ownership interest in a subsidiary and retains only a non-controlling interest in the subsidiary, the staff believes that the entity, in its consolidated financial statements, should apply the measurement and presentation requirements in IFRS 5 to all of its ownership interests.

[1] See Example 10 in IFRS 5 IG.

10. This view is consistent with the IFRIC's recent tentative agenda decision on *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*[2].

SITUATION 2 – AN ENTITY WILL *NOT* LOSE CONTROL OVER THE ASSETS DISTRIBUTED

11. In a situation in which an entity will retain a controlling interest in the subsidiary after distributions, the staff believes that the entity, in its consolidated financial statements, should ***not*** apply the measurement requirements in IFRS 5. This is because the entity will not lose control over the subsidiary – ie nothing has triggered the remeasurement of the assets to be distributed.

QUESTIONS FOR THE IFRIC

12. Does the IFRIC wish to consider the issue in this paper in the project?

13. If so, does the IFRIC agree with the staff's view?

[2] See the July 2007 IFRIC Update.