



30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
E-mail: iasb@iasb.org Website: www.iasb.org

**International
Accounting Standards
Board**

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These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: Wednesday 20 February 2008, London

Project: ED Annual improvements process–Comment analysis

Subject: Q2 - Plan to sell the controlling interest in a subsidiary
(Agenda paper 4E)

Background

1. In the ED, the Board proposed to amend IFRS 5 by adding paragraph 8A to clarify that all the assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary:

8A An entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

Staff analysis

2. The Board received 75 comment letters with the following breakdown:

Yes:	35
Yes, but expressed concern:	17
No:	1
No answer given:	<u>22</u>
Total:	75

3. The staff noted that the majority of respondents agreed with the proposed amendment or expressed no objection. Those who agreed argued that the proposed amendment would achieve consistency between IFRS 5 and IAS 27 as revised in 2008.
4. However, some respondents expressed concern with the proposal. Their views are reflected below.

A) Clarify the presentation of discontinued operations in the income statement

5. Some respondents (eg CL19, CL 32, CL44 and CL59) asked the Board to clarify the effects of the proposed amendment on the income statement when the disposal group meets the definition of a discontinued operation. Some of them questioned the Board whether the presentation of discontinued operations in the income statement was meaningful when the entity retains continuing involvement in its former subsidiary. One respondent (CL32) suggested that the ‘profit from operations’ in the income statement should include the profit generated by the remaining interest in the subsidiary and that the net profit generated by the portion being sold should be classified as discontinued. Another (CL44) encouraged the Board to revisit this issue in its joint project with the FASB on financial statement presentation.
6. The staff do not support presenting only the portion to be sold as a discontinued operation for the reasons set out in the basis for conclusions of the ED in respect of classification as held for sale. However, the staff agree with respondents that this presentation issue should be clarified in the amendment. To be consistent with paragraph 8A of the ED, the staff suggest adding the following paragraph in the section of IFRS 5 ‘Presenting discontinued operations’:

36A An entity that is committed to a sale plan involving loss of control of a subsidiary shall disclose the information required in paragraphs 33-36 of IFRS 5 when the subsidiary is a disposal group that meets the definition of a discontinued operation in accordance with paragraph 32 of IFRS 5.

B) Consider further the effects of the proposed amendment

7. Two respondents (CL41 and CL51) expressed concern about the effects of the proposed amendment. In the circumstance in which an entity holds an equity interest of 51% in a subsidiary and subsequently sells 2%, resulting in loss of control, these respondents did not believe that classification as held for sale was appropriate. One of them argued that the interest in the subsidiary is not principally recovered through a sale transaction given the significant portion of continuing involvement.
8. The staff note that the Board already discussed such a circumstance and concluded that loss of control was the triggering event for classification as held for sale, regardless of the portion of interest to be sold or to be retained.

C) Clarify in paragraph 8A that the criteria for classification as held for sale need to be met

9. Two respondents (CL44 and CL61) asked the Board to clarify in paragraph 8A of the ED that the criteria for classification as held for sale need to be met.
10. The Board thought that inserting paragraph 8A in the section of the standard headed 'Classification of non-current assets (or disposal groups) as held for sale' would make it clear that the classification criteria set out in paragraphs 6-8 should be met as well. However, the staff note that it was apparently not clear enough for at least two respondents. If the Board believes that this matter requires clarification, the staff suggests the following redrafting:

8A If a sale plan involving loss of control of a subsidiary meets the criteria in paragraphs 6 to 8 to be classified as held for sale, the entity shall classify all the assets and liabilities of that subsidiary as held for sale, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

D) Effective date

11. Three respondents (CL19, CL44 and CL50) noted that the proposed amendment would be effective for annual periods beginning on or after 1 January 2009 and pointed out that the effective date of IAS 27 (as revised in 2008) has been moved to annual periods beginning on or after 1 July 2009. They questioned whether the Board intended such a difference in the effective dates.

12. The staff note that the Board intended to align IFRS 5 with IAS 27 (as revised in 2008) in the context of this issue and therefore it seems logical that the proposed amendment to IFRS 5 should become effective at the same time as IAS 27. The staff agree that the effective date of the proposed amendment should be 1 July 2009 instead of 1 January 2009.

Staff recommendation

13. The staff note that most respondents agreed with the proposal or expressed no objection and that the concerns expressed by some respondents can be satisfied in the final amendment. For that purpose, the staff recommend the following changes:

- Add a paragraph in the section ‘Presenting discontinued operations’ that requires disclosing information for discontinued operations when the disposal group meets the definition of a discontinued operation (see paragraph 6 of this paper);
- Possibly clarify in the amendment that the criteria for classification as held for sale need to be met (see paragraph 10 of this paper); and
- Align the effective date with that of IAS 27 revised (see paragraph 12 of this paper).

14. Question to the Board: does the Board agree with staff analysis and recommendation?
