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Project	<b>Annual Improvements Project - 2008-2010 cycle</b>
Topic	<b>IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> – Application of IFRS 5 to loss of significant influence over an associate or a jointly controlled entity</b>

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### **Purpose of this paper**

1. The purpose of this paper is to provide an update to the IFRIC of the 19 February 2010 IASB Board deliberations of Exposure Draft ED 9 *Joint Arrangements* (ED 9) relating to issues analysed in the March 2010 IFRIC agenda paper 5A ‘IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – Application of IFRS 5 to loss of significant influence over an associate or a jointly controlled entity’.
2. The analysis supporting the recommendations in agenda paper 5A reflected the IASB Board deliberations of ED 9 as part of its *Joint Venture* project through to the date of completion of the agenda paper.
3. This update is provided because the staff believe that these 19 February 2010 IASB Board deliberations change the staff recommendation in agenda paper 5A.

### **Background information**

4. The staff recommendation in agenda paper 5A was to proceed, subject to certain drafting modifications, with a proposed amendment that was published in the August 2009 *Improvements to IFRS* Exposure Draft (the ED).
5. The proposed amendment requires an entity to classify as held for sale its interest in an associate, or a jointly controlled entity, when it is committed to a sale plan involving loss of significant influence or joint control.

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This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in *IFRIC Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in *IASB Update*.

6. The Board's basis for conclusions relating to the proposed amendment stated that:

BC24G The Board concluded in the second phase of its project on business combinations that the loss of control of an entity and the loss of significant influence/joint control over an entity are economically similar events and thus they should be accounted for similarly, consistent with IAS 28 *Investments in Associates*. The Board therefore clarified that all the interest an entity has in an associate or jointly controlled entity is classified as held for sale if the entity is committed to a sale plan involving loss of significant influence or joint control and all the criteria set out in paragraphs 6-8 of IFRS 5 are met.

### Staff analysis

7. A draft summary of decisions taken by the IASB Board in relation to the *Joint Ventures* project on 19 February 2010 was published in the *IASB update*.
8. This stated that:
- The Board tentatively decided to remove all descriptions that associate loss of joint control and loss of significant influence in existing IFRSs with the term 'significant economic event'. The Board tentatively decided to retain this term for the event of loss of control.
9. The staff believe that this tentative decision is contradictory to the Board's basis for conclusions relating to the proposed amendment to IFRS 5.
10. The staff has considered the consequences of the Board's tentative decision on accounting for loss of significant influence over an associate or loss of joint control in a jointly controlled entity in the context of a highly probable sales transaction.

## IASB Staff paper

11. The staff think that the consequence of this tentative decision is that the loss of significant influence or the loss of joint control in a sales transaction should not automatically trigger classification as held for sale. Instead, the staff believe that the current IFRS 5 criteria should be applied to assess whether the investment should be classified as held for sale.
12. Consequently, the staff believe that the proposed amendment to IFRS 5 relating to loss of significant influence over an associate, or a jointly controlled entity, is inconsistent with the Board's tentative decisions in their 19 February, 2010 meeting.

### Staff recommendation

13. Based on the tentative decisions taken by the Board in their 19 February 2010 meeting, the staff recommend that the Board:
  - (a) do not finalise this proposed amendment as drafted within the ED; and
  - (b) remove this issue from the *Annual Improvements* project.

#### Question 1 – Overall staff recommendations

Does the IFRIC agree with the overall staff recommendations included in this paper to recommend the Board:

- (a) do not finalise this proposed amendment as drafted in the ED; and
- (b) remove this issue from the *Annual Improvements* project?

#### Question 2 – Other paths forward for this issue

If the IFRIC does not agree with the overall staff recommendations included in this paper, what recommendations does the IFRIC have and how should the staff proceed with this issue?