

STAFF PAPER

14 – 15 May 2013

IFRS Interpretations Committee Meeting

IFRS IC March 2013

Project	Annual Improvements to IFRSs (2012–2014 Cycle)
Paper topic	IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> —change of disposal method
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

Introduction

1. In March 2013, the IFRS Interpretations Committee (‘the Interpretations Committee’) discussed a request from the European Securities and Markets Authority (ESMA) regarding the application of the guidance in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.
2. More specifically, the Interpretations Committee was asked to clarify the application of the guidance in IFRS 5 regarding the case of a change in a disposal plan from a plan to sell a division to a plan to spin off a division and distribute a dividend in kind to its shareholders¹.
3. The question addressed to the Interpretations Committee was:
 - Does a change in a disposal method from a plan that previously qualified as held for sale to a plan to issue a dividend in kind to the shareholders qualify as a change to a plan of sale?

¹ The Interpretations Committee was also asked to clarify the application of the guidance in IFRS 5 regarding the classification of a disposal group as held for sale in conjunction with a planned initial public offering (IPO) but where the prospectus has not yet been approved by the securities regulator. This issue is analysed in Agenda Paper 20A of May 2013.

4. Our analysis of this issue was included in [Agenda Paper 12](#) of March 2013.
5. At the March 2013 meeting, the Interpretations Committee had a preliminary discussion of this issue but directed the staff to do additional research on the general issues raised during the discussion and present some further analysis, including a recommendation, at a future Interpretations Committee meeting.
6. The Interpretations Committee also directed the staff to bring a summary of the outreach performed with national accounting standard-setters (ie the International Forum of Accounting Standard Setters (IFASS)) and a securities regulator (IOSCO) that the staff had performed on the issue raised by the submitter. This summary is presented in Agenda Paper 20C of May 2013.

Purpose of the paper

7. The purpose of this paper is to:
 - (a) provide an analysis of the guidance in IFRS 5 regarding a change to a plan of sale;
 - (b) present an assessment of the issue analysed against the Interpretations Committee's agenda criteria;
 - (c) make a recommendation to:
 - (i) include additional guidance in IFRS 5 to clarify that an asset (or disposal group) that is reclassified from held for sale to held for distribution (or vice versa) should not follow the accounting requirements in paragraphs 26–29 of IFRS 5 (we have set out the wording for the proposed amendment in **Appendix A**).
 - (ii) include additional guidance in IFRS 5 to clarify that in circumstances in which an entity has classified an asset (or disposal group) as held for distribution, but the criteria in paragraph 12A are no longer met, the entity shall cease to classify the asset (or disposal group) as held for distribution and apply the guidance in paragraphs 27–29

(we have set out the wording for the proposed amendment in **Appendix A**).

- (d) ask the Interpretations Committee whether it agrees with the staff recommendations.

Background information

Summary of our preliminary analysis in March 2013

8. At the March 2013 meeting we observed that on the basis of paragraph 26 of IFRS 5 an entity ceases to classify an asset (or disposal group) as held for sale when the criteria in paragraphs 7–9 of IFRS 5 are no longer met. In this respect, paragraph 26 of IFRS 5 states that (emphasis added):
- If an entity has classified an asset (or disposal group) as held for sale, **but the criteria in paragraphs 7-9 are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale.**
9. Consequently, we noted that determining whether a disposal group continues to be held for sale is dependent on the continuous assessment of the criteria in paragraphs 7–9 of IFRS 5.
10. We also observed that paragraph 12A of IFRS 5 provides guidance for the classification of a non-current asset (or disposal group) as held for distribution. We noted that this guidance contains criteria that are similar to the held-for-sale criteria by which an asset (or disposal group) would be classified as held for distribution at the commitment date when:
- (a) the asset (or disposal group) is available for immediate distribution; and
- (b) the distribution is *highly probable*.
11. Whether an asset or disposal group continues to be classified as held for distribution is dependent on the continuous assessment of the criteria in paragraph 12A.
12. Paragraph 12A is reproduced below (emphasis added):

A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners. For this to be the case, **the assets must be available for immediate distribution in their present condition and the distribution must be highly probable.** For the distribution to be highly probable, actions to complete the distribution must have been initiated and should be expected to be completed within one year from the date of classification. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the distribution is highly probable.

13. We also noted that paragraph 26 and the subsequent paragraphs 27–29 of IFRS 5 provide guidance about how an asset (or disposal group) classified as held for sale, should be accounted for when the criteria in paragraphs 7–9 are no longer met. Paragraph 26 is reproduced below:

If an entity has classified an asset (or disposal group) as held for sale, but the criteria in paragraphs 7–9 are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale.

14. Paragraph 27 of IFRS 5, provides guidance on the accounting for a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) This paragraph is reproduced below (emphasis added):

The entity shall measure a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

- (a) its carrying amount before the asset (or disposal group) was classified as held for sale, **adjusted for any**

depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and

(b) its recoverable amount at the date of the subsequent decision not to sell.

15. Paragraph 28 further states that:

The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in profit or loss from continuing operations in the period in which the criteria in paragraphs 7–9 are no longer met. Financial statements for the periods since classification as held for sale shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. The entity shall present that adjustment in the same caption in the statement of comprehensive income used to present a gain or loss, if any, recognised in accordance with paragraph 37.

16. We observe that paragraphs 26–29 are not clear about whether a change from a plan to sell a disposal group (that is, “held for sale”) (HFS) to a plan to distribute a disposal group (that is, “held for distribution” or HFD) would also be accounted for as a ‘change to a plan of sale’.

17. We also observe that IFRS 5 does not contain specific guidance for the discontinuation of held for distribution accounting when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that this distribution is no longer *highly probable* according on the basis of the guidance in paragraph 12A of IFRS 5

18. We will address this discussion in the following paragraphs.

Staff analysis

Would a change to a HFD plan be considered a ‘change to a plan of sale’ and follow the accounting for a ‘change to a plan of sale’?

19. Our objective in this paper is to analyse whether a change in a method of disposal, from a HFS plan to a HFD plan would require an entity to apply the guidance in paragraphs 26–27 in IFRS 5. We have identified two views in addressing this issue, as follows:

Views identified

- (a) **View A** – a change in a method of disposal, a change from a HFS plan to a HFD plan (after determining that the asset (or disposal group) is available for immediate distribution and that this distribution is *highly probable* according to paragraph 12A of IFRS 5) *is automatically* considered a ‘change to a plan of sale’ thereby requiring an entity to:
- (i) cease classification as HFS (paragraph 26);
 - (ii) ‘unwind’ the HFS accounting (paragraphs 27–29); and
 - (iii) apply the same classification, presentation and measurement requirements in IFRS 5 that are applicable to a non-current asset (or disposal group) that is classified as held for sale (paragraph 5A).
- (b) **View B**– a change in a method of disposal, from a HFS plan to a HFD plan (after determining that the asset (or disposal group) is available for immediate distribution and that this distribution is *highly probable* according to paragraph 12A of IFRS 5), is not automatically considered a ‘change to a plan of sale’. If the entity meets the HFS criteria, and then if, on a change of method of disposal, it meets the HFD criteria, in such a way that it meets the HFS criteria and the HFD criteria consecutively an entity:
- (i) should not apply paragraphs 27–29 of IFRS 5 to adjust the amounts recognised in respect of the disposal group; and

- (ii) should apply, uninterrupted, the classification, presentation and measurement requirements applicable to a non-current asset (or disposal group) that is classified as held for sale in accordance with paragraph 5A

20. We will explain these two views in the following section.

View A—a change to a HFD plan is automatically considered a ‘change to a plan of sale’

Step 1: cease HFS accounting

- 21. Supporters of this view observe that paragraph 26 of IFRS 5 is clear that if the HFS criteria in paragraphs 7-9 are no longer met, an entity shall cease classification of an asset (or disposal group) as HFS.
- 22. They observe that paragraph 26 is not specific about the type of change that triggers a change to a plan of sale, so it should be assumed that any change from HFS classification to another classification (whether changed to held for disposal or held for use) should follow the accounting that is required for a ‘change to a plan of sale’.

Step 2: reverse HFS accounting

- 23. Supporters of this view observe that paragraphs 27-29 specify the accounting that must be applied immediately following ceasing to classify an asset (or disposal group) as held for sale.
- 24. Paragraph 27 of IFRS 5 requires measuring the asset (or disposal group) at its carrying amount before the asset (or disposal group) was classified as HFS, adjusted for any depreciation, amortisation or revaluations that would have been recognised if the asset (or disposal group) had not been classified as HFS or at its recoverable amount if that amount is lower.

Step 3: apply HFS accounting

- 25. After remeasuring the asset (or disposal group), as explained in the paragraph above, an entity would apply the same classification, presentation and measurement requirements in this IFRS applicable to a non-current asset (or

disposal group) that is classified as held for sale, in accordance with paragraph 5A, which is reproduced below (emphasis added):

The classification, presentation and measurement requirements in this IFRS applicable to a non-current asset (or disposal group) that is classified as held for sale apply also to a non-current asset (or disposal group) that is classified as held for distribution to owners acting in their capacity as owners (held for distribution to owners.

What is the impact of accounting for an asset or a disposal group as a 'change to a plan of sale'?

26. These proponents observe that the change from HFS plan to a HFD plan is considered a change to a plan of sale that affects:
- (a) the presentation of the asset (or disposal group) in the statement of financial position (SFP) (ie from HFS to HFD); and
 - (b) the measurement of the carrying amount of the asset (or disposal group) in the SFP and in the statement of profit or loss and comprehensive income.
27. These supporters observe that HFS accounting is ceased and amounts recognised are adjusted, because there is no continuity between one classification (HFS) and the other (HFD). Consequently in their view the HFD classification is viewed as a new (or “fresh”) classification.
28. Supporters of this view think that considering HFD as a new classification is justified because they think that:
- (a) the nature of a sale and of a distribution are different;
 - (b) a sale and a distribution constitute different methods of disposal; and as a consequence,
 - (c) prior HFS accounting should not affect (new) HFD accounting.

29. Supporters of this view observe that in line with the discussion above, paragraph 26 and the guidance in paragraph 12A of IFRS 5 could be linked to clarify that a change from HFS classification to HFD classification should follow the accounting for a change to a plan of sale in paragraphs 27–29 of IFRS 5.

View B—a change to a HFD plan is not automatically considered a ‘change to a plan of sale’

30. Supporters of this view think that if an entity meets the HFS criteria followed immediately by a change of method of disposal whereby the entity meets the HFD criteria, in such a way that it meets the HFS criteria and the HFD criteria consecutively, then the entity does not cease to apply the classification and measurement requirements of IFRS 5 and consequently it does not ‘unwind’ the IFRS 5 accounting from the period when the HFS criteria were met.
31. Supporters of this view think that the measurement guidance in paragraphs 27–29 was not meant to be applied in circumstances in which a disposal group moves seamlessly from HFS classification to HFD classification.
32. Supporters of this view note that the accounting requirements are the same for both (ie HFS classification or HFD classification). They consequently think that an interruption in the accounting does not adequately reflect the change that has occurred. In their view, when an entity moves immediately from a HFS classification to a HFD classification (after determining that the asset (or disposal group) is available for immediate distribution and that this distribution is *highly probable* according to paragraph 12A of IFRS 5), an entity:
- (a) should not apply paragraphs 27–29 of IFRS 5 to adjust the amounts recognised in respect of the disposal group; and
 - (b) should continue to apply, uninterrupted, the classification, presentation and measurement requirements applicable to a non-current asset (or disposal group) that is classified as held for sale in accordance with paragraph 5A.
33. Proponents of this view base their rationale on two main reasons:

- (a) the conditions required by paragraph 8 of IFRS 5 for a sale to be *highly probable* are very similar, if not identical, to the conditions required by paragraph 12A of IFRS 5 for a distribution to be considered *highly probable*, so they could be seen as similar types of disposals that should be accounted for in the same way; and
- (b) paragraph 5A of IFRS 5 confirms that the same classification, presentation and measurement requirements in IFRS 5 applicable for an asset (or disposal group) that is classified as HFS, apply to an asset (or disposal group) that is classified as HFD.

Conditions for the highly probable assessment for HFS and HFD are very similar

34. Supporters of this view observe that the set of criteria in paragraph 8, for a sale to be considered *highly probable*, are similar to the set of criteria in paragraph 12A for a distribution to be *highly probable*. More specifically they observe that for either a sale or for a distribution:
- (a) actions to complete the plan must have been initiated;
 - (b) the plan is required to be completed within one year;
 - (c) the plan should not be significantly changed or withdrawn; and
 - (d) the probability of getting the shareholders' approval is considered in the assessment.
35. In the view of these supporters, both are disposals with the same level of commitment required and the same overall assessment (*'highly probable'*) required. The differences between the two criteria reflect only the detailed differences in the methods of disposal; they are otherwise the same. In this respect supporters of this view observe that the fact that the criteria for HFS classification and for HFD classification are alike is reaffirmed in paragraph BC64

of IFRIC 17 *Distributions of Non-Cash Assets to Owners*², as follows (emphasis added):

The IFRIC concluded that IFRS 5 should be applied at the commitment date at which time the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. **For the distribution to be highly probable, it should meet essentially the same conditions required for assets held for sale.** Further, the IFRIC concluded that the probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the distribution is highly probable. The IFRIC noted that shareholder approval is also required for the sale of assets in some jurisdictions and concluded that similar consideration of the probability of such approval should be required for assets held for sale.

36. The similarities of the conditions between HFS classification and HFD classification, indicate that a sale and a distribution constitute in substance similar forms of disposal. Consequently, the change from HFS classification to HFD classification should flow smoothly without the need for adjusting previous amounts recognised when the asset (or disposal group) was considered HFS; in other words, they think that there should not be any interruption of the HFS accounting. They support their view within the content of paragraph 5A that we analyse below.

Classification, presentation and measurement requirements in IFRS 5 for sales and distributions are the same

37. Supporters of this view observe that in accordance with the guidance in paragraph 5A, the classification, presentation and measurement requirements of a disposal via a sale or via a distribution are the same. Consequently, when the asset (or

² In 2007, the IASB decided to require an entity to apply IFRS 5 to non-current assets (or disposal groups) held for distribution to owners. This decision was derived from the publication of IFRIC 17.

disposal group) is classified as held for distribution, it should follow the same accounting principles that are applicable to held-for-sale accounting. This is further reaffirmed in paragraph BC60 of the Basis for Conclusions of IFRIC 17 when it states that:

When an entity has an obligation to distribute assets to its owners, the carrying amount of the assets will no longer be recovered principally through continuing use. The IFRIC decided that the information required by IFRS 5 is important to users of financial statements regardless of the form of a transaction. **Therefore, the IFRIC concluded that the requirements in IFRS 5 applicable to non-current assets (or disposal groups) classified as held for sale and to discontinued operations should also be applied to assets (or disposal groups) held for distribution to owners.**

38. In line with the above, supporters of this view think that a classification as HFD should not be considered a new classification but should instead be viewed as a continuation of the accounting principles for held-for-sale accounting, but with a different and new label: “held for distribution”. Consequently, they disagree with the application of the guidance in paragraphs 27–29 in IFRS 5 (that is, where the HFS effects are reversed) when an entity changes the HFS classification to a HFD classification.

Our view

39. We agree with **View B**. Current IFRS 5 can be read in a way that a change from held for sale to held for distribution automatically results in a change of plan accounting (IFRS 5.26-29), but we think that from the current guidance in paragraphs 5A, 8 and paragraph 12A of IFRS 5, as well as the guidance in paragraphs BC59–BC65 of IFRIC 17, that it was the intention of the IASB when drafting IFRS 5 to have the same criteria and the same accounting requirements for an asset (or a disposal group) classified as HFS and for an asset (or a disposal

group) classified as HFD. This is because we observe that a ‘sale’ and a ‘distribution’ are both considered ways of ‘disposal’ that should be:

- (a) analysed under similar criteria; and
- (b) accounted for in the same way.

40. Consequently, we think that as long as the criteria in paragraph 12A of IFRS 5 are still met for a HFD plan, the accounting from one type of disposal (sale) to another (distribution) should not be interrupted with the application of the guidance in paragraphs 26–29 of IFRS 5. In other words this change of method of disposal (sale to distribution) should not be considered as a change to a plan of sale.
41. Consequently, if the entity meets the HFS criteria, and then on a change of method of disposal, it meets the HFD criteria (after determining that the asset (or disposal group) is available for immediate distribution and that this distribution is *highly probable* according to paragraph 12A of IFRS 5), in such a way that it meets the HFS criteria and the HFD criteria consecutively, the entity would be required to:
- (a) continue applying HFS accounting without interruption; and
 - (b) apply the same classification, presentation and measurement requirements in this IFRS applicable to a non-current asset (or disposal group) that is classified as held for sale (paragraph 5A).
42. We think that our conclusion above would also apply when an entity changes its method of disposal from a distribution to a sale because, as we have noted in our discussion, if an entity moves seamlessly from one method of disposal to another method of disposal then the accounting should be seamless.
43. In addition, we also observe that there is no specific guidance in IFRS 5 for the discontinuation of held for distribution accounting, when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that this distribution is no longer *highly probable*, on the basis of the guidance in paragraph 12A of IFRS 5. We think that guidance in this respect could be included in IFRS 5.

Proposal for amendment

44. Consistently with our discussion above, we think that additional guidance should be included in IFRS 5 to state that an asset (or disposal group) that changes:
- (a) from being classified as held for sale (on the basis of the criteria in paragraphs 7–9) to being classified as held for distribution (on the basis of the criteria in paragraph 12A) shall continue to apply the requirements in IFRS 5 applicable to non-current assets (or disposal groups) classified as held for sale (in accordance with paragraph 5A) and not follow the accounting requirements in paragraphs 26–29 of IFRS 5; and
 - (b) from being classified as held for distribution to being classified as held for sale is not considered a change to a plan of sale and shall continue to apply the requirements in IFRS 5 applicable to non-current assets (or disposal groups) classified as held for sale and not follow the accounting requirements in paragraphs 26–29 of IFRS 5.
45. We also think that additional guidance should be included after paragraph 26 of IFRS 5 to indicate that *also* in circumstances where an entity has classified an asset (or disposal group) as *held for distribution*, but the criteria in paragraph 12A are no longer met, the entity shall cease to classify the asset (or disposal group) as held for distribution and apply the guidance in paragraphs 27–29.
46. We think that paragraphs 26–29 should have been considered for amendment by the IFRIC and the IASB when IFRIC 17 amended IFRS 5 by adding paragraphs 5A, 12A and 15A to provide guidance for held-for-distribution classification. We think that the fact that IFRIC 17 did not amend paragraphs 26–29 of IFRS 5 at the time was an oversight that we think should now be corrected.

Agenda criteria assessment

47. The staff’s assessment of the agenda criteria³ is as follows:

Agenda criteria

<p>We should address issues (5.16):</p> <p>that have widespread effect and have, or are expected to have, a material effect on those affected.</p> <p>where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods.</p> <p>that can be resolved efficiently within the confines of existing IFRSs and the <i>Conceptual Framework for Financial Reporting</i>.</p> <p>In addition:</p> <p>Can the Interpretations Committee address this issue in an efficient manner (5.17)</p> <p>Will it be effective for a reasonable time period (5.21)? Only take on the topic of a forthcoming Standard if short-term improvements are justified.</p>	<p>No. Based on our analysis of the outreach results received from standard-setters and regulators, we can indicate that this issue is not considered widespread (refer to Agenda Paper 20C of May 2013).</p> <p>Yes. We think that the proposed amendment would promote the consistent application of the guidance in IFRS 5 in circumstances where an entity changes its disposal plan (from held for sale to held for distribution) and where it discontinues held for distribution accounting.</p> <p>Yes. We think that further guidance is needed to clarify that if an entity reclassifies an asset (or disposal group) from being held for sale to being held for distribution, or from being held for distribution to being held for sale, an entity shall not consider this as a change to a plan of sale and shall not follow the guidance in paragraphs 26–29 to account for this change</p> <p>We also think that it should be clarified that in circumstances in which an entity has classified an asset (or disposal group) as held for distribution, but the criteria in paragraph 12A are no longer met, the entity shall cease to classify the asset (or disposal group) as held for distribution and apply the guidance in paragraphs 27–29.</p> <p>Yes. We think that the proposed amendment should be included as part of the annual improvements project.</p> <p>Yes. The proposed amendment will be effective for a reasonable time period. As we have explained above, the proposed improvement is justified.</p>
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³ These criteria can be found in the [IFRS Foundation Due Process Handbook](#) as indicated in the paragraphs below.

Additional criteria for annual improvements

<p>In addition to the implementation and maintenance criteria, an annual improvement should (6.11, 6.12):</p> <ul style="list-style-type: none"> • Replace unclear wording; • Provide missing guidance; or • Correct minor unintended consequences, oversights or conflict. 	<p>Yes. We have observed that current IFRS 5 can be read in a way that a change from held for sale to held for distribution automatically results in a change of plan accounting. However we think that from the current guidance in paragraphs 5A, 8 and paragraph 12A of IFRS 5, as well as the guidance in paragraphs BC59–BC65 of IFRIC 17, that it was the intention of the IASB, when drafting IFRS 5, to have the same criteria and the same accounting requirements for an asset (or a disposal group) classified as held for sale and for an asset (or a disposal group) classified as held for distribution.</p> <p>Consequently, we think that our proposals to clarify IFRS 5 correct an oversight derived from the amendment to IFRS 5 by IFRIC 17. Our proposals are to clarify the accounting requirements when (a) an entity reclassifies an asset (or disposal group) from being held for sale to being held for distribution (or vice versa); and when (b) an entity has classified an asset (or disposal group) as held for distribution, but the criteria in paragraph 12A are no longer met.</p> <p>We think that IFRIC 17 should have also considered for amendment the guidance in paragraphs 26-29 of IFRS 5 to clarify the accounting requirements for a reclassification between held for sale and held for distribution (and vice versa) and when the criteria in paragraph 12A are no longer met.</p>
<p>Not change an existing principle or propose a new principle</p>	<p>Yes. We think that the proposed amendment is not changing an existing principle or proposing a new principle.</p>
<p>Not be so fundamental that the IASB will have to meet several times to conclude (6.14)</p>	<p>Yes. We think that the proposed amendment is not so fundamental that the IASB will have to meet several times to conclude.</p>

Staff recommendation

48. On the basis of our assessment of the Interpretations Committee's agenda criteria, and also on our analysis in this paper, we think that our proposed amendment meets the criteria for inclusion in the **Annual Improvements cycle for 2012-2014**.
49. We recommend including additional guidance in IFRS 5 to state that an asset (or disposal group) that is reclassified:
- (a) from being classified as held for sale (on the basis of the criteria in paragraphs 7–9) to being classified as held for distribution (on the basis of the criteria in paragraph 12A) shall continue to apply the requirements in IFRS 5 applicable to non-current assets (or disposal groups) classified as held for sale (in accordance with paragraph 5A) and not follow the accounting requirements in paragraphs 26–29 of IFRS 5; and
 - (b) from being classified as held for distribution to being classified as held for sale is not considered a change to a plan of sale and shall continue to apply the requirements in IFRS 5 applicable to non-current assets (or disposal groups) classified as held for sale and not follow the accounting requirements in paragraphs 26–29 of IFRS 5.
50. We also recommend that additional guidance be included in IFRS 5 to state that in circumstances in which an entity has classified an asset (or disposal group) as held for distribution, but the criteria in paragraph 12A are no longer met, the entity shall cease to classify the asset (or disposal group) as held for distribution and apply the guidance in paragraphs 27–29.

Transition provisions and effective date

51. We propose that an entity should apply the amendment prospectively for annual periods beginning on or after 1 January 2015. Earlier application should be permitted. Retrospective application should not be permitted.

52. The proposed transition is in line with the transition that was required by IFRIC 17 when it amended IFRS 5 (refer to paragraph 44D of IFRS 5).

Consequential amendments

53. We have reviewed other IFRSs for potential consequential amendments triggered by this proposed amendment. As a result of this review, we do not propose any consequential amendments.

Proposed amendment

54. The proposed amendment to the guidance in paragraphs 26–29 is shown in **Appendix A** of this agenda paper.

Question for the Interpretations Committee

Question for the Interpretations Committee

1. Does the Interpretations Committee agree with our proposals to:
- (a) include additional guidance in IFRS 5 to clarify that an asset (or disposal group) that is reclassified from held for sale to held for distribution (or viceversa) should not follow the accounting requirements in paragraphs 26–29 of IFRS 5 as shown in **Appendix A**?
 - (b) include additional guidance in IFRS 5 to clarify that in circumstances in which an entity has classified an asset (or disposal group) as held for distribution, but the criteria in paragraph 12A are no longer met, the entity shall cease to classify the asset (or disposal group) as held for distribution and apply the guidance in paragraphs 27–29 as shown in **Appendix A**?

Appendix A—Proposed amendment

Proposed amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraphs 25A and 26A are added and paragraphs 27–29 are amended. New text is underlined.

Changes to a plan of sale or to a plan of distribution

- 25A If an entity reclassifies an asset (or disposal group) from being held for sale to being held for distribution, or from being held for distribution to being held for sale, an entity shall not consider this as a change to a plan of sale or as a change to a plan of distribution and shall not follow the guidance in paragraphs 26–29 to account for this change.
- 26 If an entity has classified an asset (or disposal group) as held for sale, but the criteria in paragraphs 7–9 are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale.
- 26A If an entity has classified an asset (or disposal group) as held for distribution in accordance with paragraph 12A, but the criteria in paragraph 12A are no longer met, the entity shall cease to classify the asset (or disposal group) as held for distribution.
- 27 The entity shall measure a non-current asset that ceases to be classified as held for sale or as held for distribution (or ceases to be included in a disposal group classified as held for sale or as held for distribution) at the lower of:
- (a) its carrying amount before the asset (or disposal group) was classified as held for sale or as held for distribution, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale or as held for distribution, and
 - (b) its *recoverable amount* at the date of the subsequent decision not to sell⁴.
- 28 The entity shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale or as held

⁴ If the non-current asset is part of a cash-generating unit, its recoverable amount is the carrying amount that would have been recognised after the allocation of any impairment loss arising on that cash-generating unit in accordance with IAS 36.

for distribution in profit or loss⁵ from continuing operations in the period in which the criteria in paragraphs 7–9 are no longer met. Financial statements for the periods since classification as held for sale or as held for distribution shall be amended accordingly if the disposal group or non-current asset that ceases to be classified as held for sale or as held for distribution is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. The entity shall present that adjustment in the same caption in the statement of comprehensive income used to present a gain or loss, if any, recognised in accordance with paragraph 37.

- 29 If an entity removes an individual asset or liability from a disposal group classified as held for sale, the remaining assets and liabilities of the disposal group to be sold shall continue to be measured as a group only if the group meets the criteria in paragraphs 7–9. If an entity removes an individual asset or liability from a disposal group classified as held for distribution, the remaining assets and liabilities of the disposal group to be distributed shall continue to be measured as a group only if the group meets the criteria in paragraph 12A. Otherwise, the remaining non-current assets of the group that individually meet the criteria to be classified as held for sale (or as held for distribution) shall be measured individually at the lower of their carrying amounts and fair values less costs to sell at that date. Any non-current assets that do not meet the criteria for held for sale shall cease to be classified as held for sale in accordance with paragraph 26. Any non-current assets that do not meet the criteria for held for distribution shall cease to be classified as held for sale in accordance with paragraph 26A.

Effective date

- 58 *Annual Improvements* [2012–2014] issued in [date] added paragraph 26A and amended paragraphs 26–29. An entity shall apply those amendments prospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for annual periods beginning on or after [date]. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

⁵ Unless the asset is property, plant and equipment or an intangible asset that had been revalued in accordance with IAS 16 or IAS 38 before classification as held for sale, in which case the adjustment shall be treated as a revaluation increase or decrease.

Basis for Conclusions on the proposed amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Changes to a plan of sale

- BC1 The IASB received a request to clarify the application of the guidance in paragraph 26 of IFRS 5 regarding the case of a change in a disposal plan from a plan to sell a division to a plan to spin off a division and distribute a dividend in kind to its shareholders. Paragraph 26 was interpreted as requiring this change to be considered a change to a plan of sale and be accounted in accordance with paragraphs 26–29 of IFRS 5.
- BC2 The IASB observed that the current guidance in IFRS 5 could be read in a way that a change from a plan to sell a non-current asset (or disposal group) to a plan to distribute a non-current asset (or disposal group) automatically results in a change to a plan of sale.
- BC3 The IASB observed that the measurement guidance in paragraphs 27–29 was not meant to be applied in circumstances in which a disposal group moves seamlessly from held for sale classification to held for distribution classification. This is because the IASB observed that:
- (a) the conditions required by paragraph 8 of IFRS 5 for a sale to be considered *highly probable* are very similar, if not identical, to the conditions required by paragraph 12A of IFRS 5 for a distribution to be considered *highly probable*, so they could be seen as similar types of disposals that should be accounted for in the same way; and
 - (b) paragraph 5A of IFRS 5 confirms that the same classification, presentation and measurement requirements in IFRS 5 applicable for an asset (or disposal group) that is classified as held for sale, apply to an asset (or disposal group) that is classified as held for distribution.
- BC3 The IASB also noted that based on the guidance in paragraphs BC59–BC65 of IFRIC 17 *Distribution of Non-cash Assets to Owners*, it was the intention of the IASB, to have the same criteria and the same accounting requirements for an asset (or a disposal group) classified as held for sale and for an asset (or a disposal group) classified as held for distribution.
- BC4 Consequently, the IASB noted that based on the current guidance in paragraphs 5A, 8 and paragraph 12A of IFRS 5, the classification presentation and measurement requirements in IFRS 5 for an asset (or disposal group) classified as held for sale and for an asset (or disposal group) classified as held for distribution are the same and that a reclassification from held for sale to held for distribution or a reclassification from held for distribution to held for sale should not be considered a new classification but should lead instead to the continuation of the same accounting principles.
- BC5 Consequently, to address the lack of guidance in circumstances where an entity reclassifies an asset (or disposal group) from held for sale to held for distribution

(or viceversa) the IASB proposes to add paragraph 25A to state that a reclassification of an asset (or disposal group) from held for sale to held for distribution or from held for distribution to held for sale shall not be considered a change to a plan of sale and an entity shall not follow the guidance in paragraphs 26–29 in IFRS 5 to account for this change.

- BC6 In addition, to address the lack of guidance in circumstances in which an entity no longer meets the criteria for held for distribution, the IASB proposes to add paragraph 26A to state that when an entity no longer meets the criteria in paragraph 12A it should cease held-for-distribution accounting and apply the guidance in paragraphs 27–29.
- BC7 The IASB also noted that paragraphs 26–29 should have been considered for amendment by the IFRIC and the IASB when IFRIC 17 amended IFRS 5 by adding paragraphs 5A, 12A and 15A to provide guidance for held for distribution classification. The fact that IFRIC 17 did not amend paragraphs 26–27 of IFRS 5 at the time was an oversight.