

## STAFF PAPER

10 – 11 September 2013

## IFRS Interpretations Committee Meeting

IFRS IC May 2013 and March 2013

Project	Review of tentative agenda decision
Paper topic	IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> —classification in conjunction with a planned IPO, but where the prospectus has not been approved by the securities regulator
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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. The IFRS Interpretations Committee received a request from the European Securities and Markets Authority (ESMA) to clarify the application of the guidance in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* 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 legal document with an initial offer) has not yet been approved by the securities regulator.
2. The Interpretations Committee was asked 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.
3. Our analysis of this issue was included in [Agenda Paper 20A of May 2013](#) and [Agenda Paper 12 of March 2013](#) (this paper reproduces the original submission received).
4. At the May 2013 meeting the Interpretations Committee decided that the issue addressed could be resolved efficiently within the confines of existing IFRSs and

concluded that neither an interpretation nor an amendment to IFRSs was necessary, and decided to issue a tentative agenda decision.

5. In the tentative agenda decision, the Interpretations Committee noted that an entity should apply the guidance in paragraphs 6–9 of IFRS 5 to assess whether the sale of a disposal group by means of an IPO is highly probable. The Interpretations Committee further noted that the criteria used in paragraph 8 of IFRS 5 for the assessment of whether a sale is *highly probable* would help an entity to make an assessment about events that have occurred, and about the probability of occurrence of events based on future expectations.
6. The Interpretations Committee’s full tentative agenda decision can be found in [IFRIC Update \(May 2013\)](#).

### **Comment letter summary**

7. The comment period for the tentative agenda decision ended on 29 July 2013. We received two responses.
8. One respondent<sup>1</sup> agrees with the tentative agenda decision as drafted.
9. The other respondent<sup>2</sup> agrees with the Interpretations Committee’s decision not to add this item to its agenda for the reasons set out in the tentative agenda decision, but suggests that the agenda decision could also refer to the guidance in paragraph 7 of IFRS 5, which states that for the classification as a non-current asset (or disposal group) held for sale to be appropriate the sale must be subject only to terms that are usual and customary for sales of such assets.

### **Analysis of comments received**

10. We agree with the second respondent that the agenda decision could make a reference to the guidance in paragraph 7 of IFRS 5. Paragraphs 6 and 7 are reproduced below (emphasis added):

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<sup>1</sup> AcSB (Canada)

<sup>2</sup> Deloitte

6 An entity shall 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.**

7 For this to be the case, 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.

11. We think that the agenda decision could emphasise 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).
12. For example, in the case of a disposal plan that is intended to be achieved by means of an IPO, management would determine whether the approval of the prospectus by the competent authority is relevant or not for completing the sale transaction.

### **Staff recommendation**

13. We recommend confirming the tentative agenda decision with some minor drafting changes. We have set out the wording for the final agenda decision in **Appendix A** of this paper for the Interpretations Committee's approval.

### **Questions for the Interpretations Committee**

#### **Question for the Interpretations Committee**

Does the Interpretations Committee agree with the wording for the final agenda decision shown in Appendix A?

## Appendix A—Final agenda decision

- A1. We propose the following wording to finalise the agenda decision (new text is underlined and deleted text is ~~struck through~~):

**IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—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 been approved by the securities regulator. The submitter requests 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 an entity should apply the guidance in paragraphs 6–9 of IFRS 5 to assess whether the sale of a disposal group by means of an IPO is highly probable.

The Interpretations Committee observed that the following criteria in paragraph 8 of IFRS 5 represent events that 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:

- (d) 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);
- (e) 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
- (f) 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.

The Interpretations Committee also 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*.

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 ~~and~~ consequently decided not to add this issue to its agenda.

July 25, 2013

(By e-mail to [ifric@ifrs.org](mailto:ifric@ifrs.org))

IFRS Interpretations Committee

30 Cannon Street,  
London EC4M 6XH  
United Kingdom

Dear Sirs,

**Re: Tentative agenda decision on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – classification in conjunction with a planned IPO, but where the prospectus has not been approved by the securities regulator**

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision on the classification of a disposal group as held for sale before the prospectus is approved by the securities regulator. This tentative agenda decision was published in the May 2013 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee's decision not to add this item to its agenda for the reasons provided in the tentative agenda decision.

We would be pleased to provide more detail if you require. If so, please contact me at +1 416 204-3276 (e-mail [pmartin@cpacanada.ca](mailto:pmartin@cpacanada.ca)), or Kathryn Ingram, Principal, Accounting Standards at +1 416 204-

3475 (e-mail [kingram@cpacanada.ca](mailto:kingram@cpacanada.ca)).

Yours truly,



Peter Martin, CPA, CA Director,  
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Wayne Upton  
Chairman  
IFRS Interpretations Committee  
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29 July 2013

Dear Mr. Upton

**Tentative Agenda Decision - IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Classification in conjunction with a planned IPO, but where the prospectus has not been approved by the securities regulator**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the May IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for clarification of the classification of a non-current asset (or disposal group) as held for sale prior to regulatory approval of the prospectus for a planned disposal by means of an initial public offering (IPO).

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision, but suggest that the agenda decision could also refer to the guidance in paragraph 7 of IFRS 5 stating that for classification as a non-current asset (or disposal group) to be appropriate the sale must be subject only to terms that are usual and customary for sales of such assets (or disposal groups).

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely



Veronica Poole  
Global IFRS Leader