STAFF PAPER

13–14 May 2014

IFRS Interpretations Committee Meeting

IFRS IC March and May 2013
IASB Oct 2013 and Nov 2013

Project	***Annual Improvements to IFRSs 2012–2014 Cycle* (ED/2013/11)—Comment letter analysis**
Paper topic	IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—Changes in methods of disposal

CONTACT(S)	Denise Durant	ddurant@ifrs.org	+44 (0)20 7246 6469

Introduction

1. The Exposure Draft ED/2013/11 *Annual Improvements to IFRSs 2012–2014 Cycle* published in December 2013 (the 'ED') includes a proposal for an amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* to:

   (a) clarify the accounting for 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; and

   (b) provide guidance in IFRS 5 for the discontinuation of held-for-distribution accounting.

Objective

2. The objective of this paper is to provide an analysis of the comment letters received on the proposal to amend IFRS 5 and to obtain a recommendation from the IFRS Interpretations Committee (the 'Interpretations Committee') for the

IASB to include the amendment in the final *Annual Improvements to IFRSs 2012–2014 Cycle*, which is planned to be published later in 2014.

Structure of the paper

3. This paper:

   (a) provides a description of the issue that led to the proposed amendments;

   (b) analyses the comments received as part of the Exposure Draft process; and

   (c) asks the Interpretations Committee to confirm whether it agrees with the staff recommendation to proceed with the proposed amendments.

Description of the issue

4. The IASB received a request to clarify the accounting for 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. This was because IFRS 5 does not provide guidance in circumstances in which an entity reclassifies an asset (or a disposal group) directly from held-for-sale (HFS) classification to held-for-distribution (HFD).

5. The IASB observed that IFRIC 17 *Distribution of Non-cash Assets to Owners* amended IFRS 5 to provide guidance to account for a non-current asset (or disposal group) that is classified as HFD but did not provide further guidance when there is a change from HFS to HFD classification (or vice versa). The IASB determined that not providing this specific guidance was an oversight.

6. The IASB analysed the guidance for HFD classification and observed that it was the intention to have consistent criteria and accounting requirements for an asset

(or a disposal group) classified as HFS and for an asset (or a disposal group) classified as HFD.

7. Consequently, as part of the Annual Improvements project, the IASB proposed to amend IFRS 5 to clarify that a change from HFS to HFD (or vice versa) when an entity reclassifies an asset (or a disposal group) directly from one method of disposal to the other should not:

   (a) be considered to be a new classification; and

   (b) "unwind" the HFS accounting as would otherwise be required by paragraphs 27 to 29 of IFRS 5 on ceasing to meet the HFS classification.

8. Instead, a change from HFS to HFD (or vice versa) should lead to the continuation of the classification, presentation and measurement requirements required for each type of disposal in IFRS 5.

9. In analysing this issue the IASB also observed that there was no specific guidance in IFRS 5 for the discontinuation of HFD accounting, when an entity determines that the asset (or the disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable.

10. The IASB therefore proposed that an entity should cease HFD accounting in the same way that it ceases to apply HFS accounting when it does not meet the HFS criteria. Consequently, to account for this change, an entity should apply the guidance in paragraphs 27–29 of IFRS 5.

Comment letter analysis

11. In this section, we discuss and analyse the comments received from interested parties on the ED during the comment period, which ended on 13 March 2014.

12. The ED asked two questions that were answered individually for each proposed amendments:

    (a) Question 1: Do you agree with the IASB's proposal to amend the Standard as described in the Exposure Draft? If not, why and what alternative do you propose?

    (b) Question 2: Do you agree with the proposed transitional provisions and effective date for the issue as described in the Exposure Draft? If not, why and what alternative do you propose?

13. The IASB received **64** comment letters on the ED. From these comment letters:

    (a) approximately two-thirds included views on **Question 1** regarding the proposed amendments to IFRS 5; and

    (b) approximately half included views on **Question 2** regarding the proposed amendments to IFRS 5.

Analysis of Question 1

14. With respect to the respondents who replied to Question 1:

    (a) approximately half of the respondents fully agreed with the proposed amendments to IFRS 5;

    (b) half of the respondents agreed with the proposed amendments, subject to clarifications being made which are discussed later; and

    (c) a couple of respondents disagreed with the proposed amendments, because these respondents do not think that these amendments to IFRS 5 are necessary.

15. The main reasons why some of those respondents *support* the IASB's proposal are because they think that the proposed amendments:

(a) are consistent with the IASB's original intention (as reflected through the amendments made by IFRIC 17) 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; and

(b) remedy the oversight caused by IFRIC 17 when this Interpretation amended IFRS 5.

16. The main reasons why respondents *conditionally agree* with the proposed amendments are because they think that the IASB should further:

(a) Issue 1: clarify if the 'date of classification' of a sale changes when there is a change from HFS to HFD (or vice versa);

(b) Issue 2: clarify the accounting for the difference that may exist between 'fair value less costs to sell' and 'fair value less costs to distribute' when there is a change from HFS to HFD (or vice versa);

(c) Issue 3: explain the meaning of 'direct reclassification' from HFS to HFD (or vice versa);

(d) Issue 4: amend other paragraphs in IFRS 5 to include the notions of 'HFD' and/or 'costs to distribute'; and

(e) Issue 5: add some minor edits to paragraphs 26–29 of IFRS 5.

17. We will analyse each one of these issues in the following paragraphs.

Issue 1: clarify if the 'date of classification' of a sale changes when there is a change from HFS to HFD (or vice versa)

18. Some respondents[1] asked the IASB to clarify whether the change from HFS to HFD (or vice versa) changes the 'date of classification', for the purposes of determining when a sale or distribution should be completed.

19. We observe that the 'date of classification' is part of the assessment to determine whether a sale or a distribution is 'highly probable' in paragraph 8 (for a sale) and in paragraph 12A (for a distribution) of IFRS 5. In accordance with these paragraphs, a sale (or a distribution) is 'highly probable' if it is completed within one year from the date of classification.

20. A majority of the respondents who raised a question about the 'date of classification' think that this date should not change when there is a change from HFS to HFD (or vice versa). For example, one of the respondents said (emphasis added):

> … We believe that the Board should emphasize in paragraph 26B that *the date of classification does not change, keeping the one year expected date of sale/distribution term when classifying from held for sale to held for distribution. For example, if the entity classified the asset as an asset held for sale in March 31st 2013 and, in September 30st 2013, decided to reclassify the asset held for sale to the asset held for distribution, then we believe that the maximum date to distribute this asset should be March 31st 2014, considering the one-year requirement in paragraph 8 of IFRS 5.* These procedures would avoid entities to manipulate the classification and values of the

[1] The Institute for the Accountancy Profession in Sweden (FAR), Belgian Accounting Standards Board (CBN), Group of Latin-American Accounting Standard Setters (GLASS), Brazilian Committee for Accounting Pronouncements (CPC), Repsol and EY.

assets by intentionally switching classification as held for sale/distribution without sound reasoning. [CPC]

Staff analysis and recommendation

21. We think that a change in a plan of disposal does not change the requirements in IFRS 5 to determine whether a sale (or a distribution) is 'highly probable', in accordance with paragraph 8 for HFS or paragraph 12A for HFD of IFRS 5. This is because we observe that the IASB's intention is to have the same criteria and the same accounting requirements for an asset (or a disposal group) classified as HFS or HFD. Consequently, the 'date of classification' does not change (ie restart) when an entity reclassifies an asset (or a disposal group) from HFS to HFD (or vice versa).

22. Moreover, in line with our view that a change in a plan of disposal does not change the requirements in IFRS 5 for HFS or HFD, we think that reclassifying an asset (or a disposal group) from HFS to HFD (or vice versa) should not be considered to be an event or circumstance that may extend the period to complete a sale (in accordance with paragraph 9 and Appendix B of IFRS 5) or a distribution.

23. Consequently, we think that to address the respondents' concerns the Interpretations Committee should recommend the IASB to clarify that a change from HFS to HFD (or vice versa):

    (a) does not change the 'date of classification' as determined in paragraphs 8 and 12A of IFRS 5; and

    (b) should not be considered to be an event or circumstance that may extend the period to complete a sale (in accordance with paragraph 9 and Appendix B of IFRS 5) or a distribution.

24. Our proposal for such guidance is included in agenda paper 17A(i).

Issue 2: clarify the accounting for the difference that may exist between 'fair value less costs to sell' and 'fair value less costs to distribute' when there is a change from HFS to HFD (or vice versa)

25. Some respondents[2] think that the IASB should clarify how to account for the difference between 'costs to sell' and 'costs to distribute' when an entity changes its method of disposal from HFS to HFD (or vice versa).

26. Some other respondents[3] think that it would be helpful if the guidance in IFRS 5 could clarify that a change from a 'plan of sale' to a 'plan of distribution' (or vice versa) does not trigger any remeasurement.

Staff analysis and recommendation

27. We agree with the respondents that the 'costs to sell' and the 'costs to distribute' could differ.

28. We think that an entity that changes the classification of an asset (or a disposal group) from HFS to HFD (or vice versa) should update the value of the asset (or the disposal group) at the time of the change in the method of disposal, following the requirements in paragraph 15 (for HFS) or paragraph 15A (for HFD) of IFRS 5.

29. Consequently, at the time of the change of method of disposal, if an entity reclassifies an asset (or a disposal group):

    (a) from HFS to HFD, the value of the asset (or the disposal group) should be updated to the lower of its carrying amount and fair value less costs to distribute in accordance with paragraph 15A of IFRS 5; and

---

[2] EY, CBN, Institute of Chartered Accountants Ireland (ICAI) and GLASS.

[3] Institute of Certified Public Accountants of Kenya (ICPAK) and European Financial Reporting Advisory Group (EFRAG)

(b) from HFD to HFS, the value of the asset (or the disposal group) should be updated to the lower of its carrying amount and fair value less costs to sell in accordance with paragraph 15 of IFRS 5.

30. We observe that the application of the requirements in paragraphs 15 and 15A of IFRS 5 may give rise to a write down in value (impairment loss) or possibly its subsequent reversal. In this case, we observe that an entity shall follow the accounting requirements for the recognition of an impairment loss or a gain for any subsequent increase in the fair value less costs to sell (or costs to distribute) in paragraphs 20–25 of IFRS 5.

31. We consequently propose to the Interpretations Committee to recommend to the IASB to clarify that if an entity reclassifies an asset (or a disposal group) directly from being HFS to HFD (or vice versa), the value of the asset (or the disposal group) should be updated to reflect the values in accordance with paragraphs 15 or 15A of IFRS 5; any write down in value (impairment loss) or subsequent reversal shall be recognised in accordance with paragraphs 20–25 of IFRS 5. Our proposal for such guidance is included in agenda paper 17A(i).

Issue 3: explain the meaning of 'direct reclassification' from HFS to HFD (or vice versa)

32. A couple of respondents[4] think that the IASB should further clarify what it means by a 'direct reclassification' from being HFS to HFD (or vice versa) in the proposed paragraph 26B. They note that:

(a) a 'direct reclassification' from HFS to HFD (or vice versa) is not necessarily immediate because of legal or regulatory requirements; and

(b) there could be a reasonable time lag before the actual reclassification comes into effect, which would preclude it from being 'direct'.

[4] BDO (UK) and Singapore Accounting Standards Council (ASC).

Staff analysis and recommendation

33. We acknowledge that there could be some legal or regulatory requirements that could prevent the reclassification from being 'direct' or 'immediate' from one method of disposal to another. Nevertheless, we think that it is the IASB's intention that the change from HFS to HFD classification (or vice versa) should flow smoothly, without adjusting previous amounts (in accordance with the guidance in paragraphs 26 –29 of IFRS 5 for changes in a plan of sale when the criteria in paragraphs 7–9 of and 12A of IFRS 5 are no longer met).

34. Consequently, it is our understanding that when the IASB required a 'direct reclassification' when moving from one method of disposal to another, it was intended that the reclassification moves without any significant time lag or interruption.

35. We think that the Interpretations Committee should recommend to the IASB to explain more clearly the IASB's intention when introducing the concept of 'direct reclassification' in paragraph 26B. Consequently, we think that the Basis for Conclusions of the proposed amendments should explain that a 'direct classification' means that an entity moves from one method of disposal to another without any significant time lag, so that there is no interruption of the application of the requirements in IFRS 5 for HFS and HFD disposal methods. Our proposal for such explanation is included in agenda paper 17A(i).

Issue 4: amend other paragraphs in IFRS 5 to include the notions of 'HFD' and/or 'costs to distribute'

36. Some respondents[5] noted that the proposed amendments are limited because they only amend the section on 'changes to a plan of sale' of IFRS 5 and do not update

[5] Australian Accounting Standards Board (AASB), European Securities and Markets Authority (ESMA), KPMG and ASC.

other sections in IFRS 5 to ensure that the notions of 'HFD to owners' and/or 'costs to distribute' are included in other parts of the Standard. In this respect, they think that the IASB should adopt a more consistent approach when updating IFRS 5.

Staff analysis and recommendation

37. We observe that the approach taken in IFRIC 17 when it amended IFRS 5 was to include a general instruction in paragraph 5A of IFRS 5 that the classification, presentation and measurement requirements in IFRS 5 that are applicable to HFS classification also apply to HFD classification. We agree with this approach because we think that it sets out the principles for HFD accounting as well as the view that the HFS guidance should be read as also applying to HFD.

38. Consequently, we think that the Interpretations Committee should recommend to the IASB that it should not revise the wording in the other parts of IFRS 5. However, if a broader review of IFRS 5 is taken in the future then this approach could be reconsidered.

Issue 5: other edits to paragraphs 26 –29 of IFRS 5 proposed by respondents

39. Some respondents[6] noted that the proposed amendments to paragraphs 27–29 of IFRS 5 should include some additional references to the notions of 'HFD' or 'costs to distribute'.

Staff analysis and recommendation

40. We have analysed the comments from these respondents. We acknowledge that some references to the notions of 'HFD' or 'costs to distribute' are needed in

[6] For example: ASC, Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF) and International Organisation of Securities Commissions (IOSCO).

some paragraphs within the section on ‘changes to a plan of sale or to a plan of distribution’ and should be included, because this section focuses on the change from one method of disposal to another and thus it should be clear about what accounting requirements are applicable when changing from HFS and HFD (or vice versa).

41. We agree with these suggestions and think that the Interpretations Committee should recommend to the IASB that it should revise paragraphs 27(b), 28 and 29 to include the notions of ‘HFD’ or ‘costs to distribute’. Our proposed edits are included in agenda paper 17A(i).

Analysis of Question 2—transition requirements

42. More than two-thirds of the respondents who replied to Question 2 fully agree or conditionally agree to the proposal to apply the amendments to IFRS 5 prospectively.

43. Those who conditionally agree[7] suggest that the mechanics of prospective application be clarified. For example, would the revised requirements apply to assets (or disposal groups) classified as HFS or HFD that have been subject to a prior change in a plan of disposal but that have not yet been disposed of at the date of initial application? Or would the proposed amendments only apply to a change in a plan of disposal that occurs after the date of initial application?

44. About a third of the respondents[8] who replied to Question 2 disagree with the proposal to apply the proposed amendments prospectively. The main reasons are:

---

[7] Grant Thornton International Ltd and Hong Kong Institute of Certified Public Accountants (HKICPA).

[8] Mazars, the Linde Group, ICPAK, CINIF, Korea Accounting Institute (KAI), Federation of Accounting Professionals in Thailand, Financial Reporting Council (FRC - UK), Baker Tilly (UK), KPMG, ESMA, EFRAG, Association of Chartered Certified Accountants (ACCA) and Autorite des Normes Comptables (ANC).

(a) some think that the retrospective application of the proposed amendments should not be too onerous because an entity would most probably have already collected all the relevant information at the time of the change in the plan. Some also think that the risk of using hindsight would be limited and would not outweigh the benefit of having comparable information.

(b) some think that retrospective application would enhance the consistency of presentation and comparability of the financial information.

(c) one respondent expressed the view that the proposed amendments should not be required to be applied retrospectively to changes in disposal plans that occurred in a prior period and the asset (or the disposal group) has been sold or distributed at the date that the proposed amendments were first applied.

Staff analysis and recommendation

45. We observe that the transition requirement to apply the proposed amendments to IFRS 5 prospectively is in line with the transition that was required by IFRIC 17 when it amended IFRS 5 (see paragraph 44D of IFRS 5) to provide guidance for HFD classification. We understand that it was the IASB's intention to be consistent with IFRIC 17's approach and consequently it required the prospective application of the proposed amendments.

46. We think that the Interpretations Committee should recommend the IASB to further clarify that the amendments to IFRS 5 apply to a change in a plan of disposal (from HFS to HFD or vice versa) that occurs in annual periods beginning on or after the date of initial application of the proposed amendments, which is in line with the transition provisions of IFRIC 17 when it amended IFRS 5. We think that this would also clarify that the revised requirements do not apply to assets (or disposal groups) classified as HFS or HFD that have been subject to a prior

change in a plan of disposal but that have not yet been disposed of at the date of initial application.

47. We suggest the Interpretations Committee to recommend the IASB to include an explanation in the Basis for Conclusions of the proposed amendments that the proposed transition (ie prospective application) is in line with the transition that was required by IFRIC 17 when it amended IFRS 5 to provide guidance for HFD classification.

Staff recommendation

48. On the basis of the analysis in the previous section of the paper, we think that the Interpretations Committee should recommend to the IASB that it should proceed with the proposed amendments to IFRS 5.

49. We also propose the Interpretations Committee to recommend to the IASB to make some changes to the proposed amendments to IFRS 5 to make them clearer.

50. The staff draft of the wording for the proposed amendments to IFRS 5 is presented in agenda paper 17A(i). These amendments are summarised below:

   (a) clarify that a change from HFS to HFD (or vice versa):

      (i) does not change the 'date of classification' as determined in paragraphs 8 and 12A of IFRS 5; and

      (ii) should not be considered to be an event or circumstance that may extend the period to complete a sale (in accordance with paragraph 9 and Appendix B of IFRS 5) or a distribution.

   (b) clarify that if an entity reclassifies an asset (or a disposal group) directly from being HFS to HFD (or vice versa), the value of the asset (or the disposal group) is updated to reflect the values in accordance with paragraphs 15 or 15A of IFRS 5; any write down in value (impairment loss) or subsequent reversal shall be recognised in accordance with paragraphs 20–25 of IFRS 5.

(c) explain in the Basis for Conclusions of the proposed amendment that a 'direct classification' means that an entity moves from one method of disposal to another without any significant time lag, so that there is no interruption of the application of the requirements in IFRS 5 for HFS and HFD disposal methods.

(d) revise paragraphs 27(b), 28 and 29 to include the notions of 'HFD' or 'costs to distribute'.

(e) explain in Basis for Conclusions of the proposed amendments that the proposed transition (ie prospective application) is in line with the transition that was required by IFRIC 17 when it amended IFRS 5.

Questions to the Interpretations Committee

Questions to the IFRS Interpretations Committee
1. Does the Interpretations Committee agree to recommend to the IASB that it should proceed with the amendments to IFRS 5 and add further changes that would make the proposed amendments clearer? 2. Does the Interpretations Committee have any comments on the proposed amendments to IFRS 5, as shown in agenda paper 17A(i)?