

## STAFF PAPER

13–14 May 2014

## IFRS Interpretations Committee Meeting

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

|             |  |                  |                     |
|-------------|--|------------------|---------------------|
| Project     | <b>Annual Improvements to IFRSs 2012–2014 Cycle (ED/2013/11)—Comment letter analysis</b> |                  |                     |
| Paper topic | IFRS 5—Changes in methods of disposal (Staff draft of the proposed amendments to IFRS 5) |                  |                     |
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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*.

**Staff draft of the proposed amendment to IFRS 5**

1. This agenda paper presents the staff draft of the proposed amendment to IFRS 5 derived from our recommendations in **Agenda Paper 17A**.
  - (a) **Appendix A** shows revisions to the wording in the currently effective Standard. The new text is underlined and deleted text is struck through.
  - (b) **Appendix B** shows revisions to the wording in the Exposure Draft ED/2013/11 Annual Improvements to IFRSs 2012–2014 Cycle published in December 2013. The new text is underlined and deleted text is struck through.

## Appendix A—Changes for finalising the amendment (highlighting differences from the currently effective Standard)

### Amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraphs 26–29 and their heading are amended and paragraphs 26A–26D and 44K are added. New text is underlined.

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

- 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 and shall follow the guidance in paragraphs 27–29 to account for this change except for the circumstances in which paragraph 26B applies.
- 26A If an entity has classified an asset (or a 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 the disposal group) as held for distribution and shall follow the guidance in paragraphs 27–29 to account for this change except for the circumstances in which paragraph 26B applies.
- 26B If an entity reclassifies an asset (or a disposal group) directly from being held for sale to being held for distribution, or directly from being held for distribution to being held for sale, the entity shall not follow the guidance in paragraphs 27–29 to account for this change. The entity shall continue to apply 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 or for a non-current asset (or disposal group) that is classified as held for distribution.
- 26C Accordingly, at the time of the change in the method of disposal the entity shall update the value of the non-current asset (or disposal group) by following the accounting requirements in paragraph 15 (for held for sale) or paragraph 15A (for held for distribution) and recognise any reduction or increase in the value of a non-current asset (or disposal group) by following the accounting requirements in paragraphs 16–25.
- 26D The reclassification of an asset (or disposal group) directly from being held for sale to being held for distribution (or vice versa) shall not change the date of classification in accordance with paragraphs 8 and 12A. The reclassification of an asset (or a disposal group) directly from being held for distribution to being held for sale (or vice versa) shall not be considered to be an event or circumstance that may extend the period to complete the sale in accordance with paragraph 9.
- 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 sell or distribute.

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 for distribution in profit or loss<sup>1</sup> from continuing operations in the period in which the criteria in paragraphs 7–9 or 12A, respectively, 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 (or costs to distribute) 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 distribution in accordance with paragraph 26A.

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## Effective date

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44K Annual Improvements to IFRSs 2012–2014 Cycle, issued in [date], amended paragraphs 26–29 and added paragraphs 26A–26D. An entity shall apply those amendments prospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to changes in a method of disposal that occur in annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

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<sup>1</sup> 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 amendment 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 or to a plan of distribution**

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- BC72B 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. Paragraph 26 of IFRS 5 was interpreted by some but not all as requiring this change to be considered as a change to a plan of sale that would be accounted for in accordance with paragraphs 27–29 of IFRS 5.
- BC72C In analysing this issue the IASB observed that there was 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 the distribution is no longer *highly probable*, in accordance with paragraph 12A of IFRS 5.
- BC72D The IASB observed that IFRIC 17 *Distribution of Non-cash Assets to Owners* amended IFRS 5 by adding paragraphs 5A, 12A and 15A to provide guidance for held-for-distribution classification. However, this amendment did not provide guidance for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa), or when held-for-distribution accounting is discontinued. The IASB noted that paragraphs 27–29 of IFRS 5 should have been considered for amendment by IFRIC 17 and the fact that they were not amended at the time was an oversight.
- BC72E 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 and that the measurement guidance in paragraphs 27–29 of IFRS 5 should be applied.
- BC72F The IASB observed that, on the basis of paragraph 5A of IFRS 5 and paragraph BC60 of IFRIC 17, it is the intention of the IASB to have consistent criteria and 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. In addition:
- (a) the conditions required by paragraph 8 of IFRS 5 for a sale to be considered highly probable are similar to the conditions required by paragraph 12A of IFRS 5 for a distribution to be considered highly probable, so they should be accounted for in the same way; and
  - (b) paragraph 5A of IFRS 5 confirms that the classification, presentation and measurement requirements in IFRS 5 that are applicable for an asset (or disposal group) that is classified as held for sale also apply to an asset (or disposal group) that is classified as held for distribution.
- BC72G The IASB noted that, based on the current guidance in paragraphs 5A, 8 and paragraph 12A of IFRS 5 and the explanations in the Basis for Conclusions in IFRIC 17, the change from held for sale to held for distribution (or vice versa) when an entity reclassifies an asset (or disposal group) directly from one method of disposal to the other should not be considered a new classification, but should instead lead to the continuation of the classification, presentation and measurement requirements required for each type of disposal in IFRS 5.
- BC72H Consequently, when an entity reclassifies an asset (or disposal group) directly from held for sale to held for distribution (or vice versa), the IASB decided to clarify that such a reclassification shall not be treated as a change to a plan of sale (or distribution) and an entity shall not follow the guidance in paragraphs 27–29 of IFRS 5 to account for this change.

- BC72I In response to the comments received on the Exposure Draft *Annual Improvements to IFRSs 2012–2014 Cycle* published in December 2013 (the ‘ED’), the IASB noted that the notion of ‘direct reclassification’ in paragraph 26B means that an entity moves from one method of disposal to the other without any significant time lag, so that there is no interruption on the application of the requirements in IFRS 5.
- BC72J In response to the comments received on the ED, the IASB clarified that at the time of the change in disposal an entity would need to update the value of the non-current asset (or disposal group) in accordance with paragraphs 15 or 15A of IFRS 5, and recognise any write down in value (impairment loss) or subsequent reversal shall be recognised in accordance with paragraphs 20–25 of IFRS 5.
- BC72K In response to the comments received on the ED, the IASB further clarified that a change from held for sale to held for distribution (or vice versa) does not change the requirements in IFRS 5 to determine whether a sale (or a distribution) is ‘highly probable’, in accordance with paragraph 8 (and 12A) of IFRS 5. Consequently, the determination of the twelve month period should not restart when such change in method of disposal occurs, but should instead continue to be the same as initially determined by management in its assessment of whether the sale and/or distribution is ‘highly probable’. The IASB also clarified that a change in a disposal method should not be considered an event or circumstance that may extend the period to complete a sale in accordance with paragraph 9 (and the guidance in Appendix B) of IFRS 5 or to complete a distribution.
- BC72L To address the lack of guidance in circumstances in which an entity no longer meets the criteria for held for distribution (without meeting the held-for-sale criteria), the IASB decided to clarify that an entity should cease held-for-distribution accounting in the same way as it ceases to apply the held-for-sale accounting when ceasing to meet the held-for-sale criteria.
- BC72M In response to the comments received in the ED the IASB further observed that the amendments to IFRS 5 are required to be applied on a prospective basis to changes in the method of disposal that occur after the first application of the amendments. This is because this requirement is in line with the transition requirements provided by IFRIC 17 when it amended IFRS 5 (see paragraph 44D of IFRS 5).

## Appendix B—Changes from the Exposure Draft published in December 2013 following our recommendations in this paper

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

Paragraphs ~~26–29 and their heading are amended and paragraphs~~ 26A–~~26B~~26D and 44K are added ~~and paragraphs 26–29 are amended.~~ New text is underlined.

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

- 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 and shall follow the guidance in paragraphs 27–29 to account for this change except for the circumstances in which paragraph 26B applies.
- ~~26A~~ If an entity has classified an asset (or a 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 the disposal group) as held for distribution and shall follow the guidance in paragraphs 27–29 to account for this change except for the circumstances in which paragraph 26B applies.
- ~~26B~~ If an entity reclassifies an asset (or a disposal group) directly from being held for sale to being held for distribution, or directly from being held for distribution to being held for sale, the entity shall not follow the guidance in paragraphs 27–29 to account for this change. The entity shall continue to apply 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 or for a non-current asset (or disposal group) that is classified as held for distribution.
- ~~26C~~ Accordingly, at the time of the change in the method of disposal the entity shall update the value of the non-current asset (or disposal group) by following the accounting requirements in paragraph 15 (for held for sale) or paragraph 15A (for held for distribution) and recognise any reduction or increase in the value of a non-current asset (or disposal group) by following the accounting requirements in paragraphs 16–25.
- ~~26D~~ The reclassification of an asset (or disposal group) directly from being held for sale to being held for distribution (or vice versa) shall not change the date of classification in accordance with paragraphs 8 and 12A. The reclassification of an asset (or a disposal group) directly from being held for distribution to being held for sale (or vice versa) shall not be considered to be an event or circumstance that may extend the period to complete the sale in accordance with paragraph 9.
- 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) ...

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

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 for distribution in profit or loss<sup>2</sup> from continuing operations in the period in which the criteria in paragraphs 7–9 or 12A, respectively, 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 (or costs to distribute) 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 distribution in accordance with paragraph 26A.

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## Effective date

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44K Annual Improvements to IFRSs 2012–2014 Cycle, issued in [date] ~~added paragraphs 26A–26B and~~, amended paragraphs ~~2726–29~~ and added paragraphs 26A–26D. An entity shall apply those amendments prospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ~~for~~ to changes in a method of disposal that occur in annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

<sup>2</sup> 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** amendment 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 or to a plan of distribution

~~BC1~~BC72B 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. Paragraph 26 of IFRS 5 was interpreted by some but not all as requiring this change to be considered as a change to a plan of sale that would be accounted for in accordance with paragraphs ~~26~~27–29 of IFRS 5.

~~BC2~~BC72C In analysing this issue the IASB observed that there was 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 the distribution is no longer *highly probable*, in accordance with paragraph 12A of IFRS 5.

~~BC3~~BC72D The IASB observed that IFRIC 17 *Distribution of Non-cash Assets to Owners* amended IFRS 5 by adding paragraphs 5A, 12A and 15A to provide guidance for held-for-distribution classification. However, this amendment did not provide guidance for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa), or when held-for-distribution accounting is discontinued. The IASB noted that paragraphs ~~26~~27–29 of IFRS 5 should have been considered for amendment by IFRIC 17 and the fact that they were not amended at the time was an oversight.

~~BC4~~BC72E 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 and that the measurement guidance in paragraphs 27–29 of IFRS 5 should be applied.

~~BC5~~ ~~The IASB observed that paragraphs 27–29 do not provide guidance in circumstances in which a disposal group reclassifies an asset (or disposal group) directly from held for sale classification to held for distribution classification.~~

~~BC6~~BC72F The IASB observed that, on the basis of ~~paragraphs BC59–BC65~~paragraph 5A of IFRS 5 and paragraph BC60 of IFRIC 17, it is the intention of the IASB to have the same consistent 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. In addition:

- (a) the conditions required by paragraph 8 of IFRS 5 for a sale to be considered highly probable are similar to the conditions required by paragraph 12A of IFRS 5 for a distribution to be considered highly probable, so they should be accounted for in the same way; and
- (b) paragraph 5A of IFRS 5 confirms that the classification, presentation and measurement requirements in IFRS 5 that are applicable for an asset (or disposal group) that is classified as held for sale also apply to an asset (or disposal group) that is classified as held for distribution.

~~BC7~~ ~~Consequently, the~~BC72G The IASB noted that, based on the current guidance in paragraphs 5A, 8 and paragraph 12A of IFRS 5 and the explanations in the Basis for Conclusions in IFRIC 17, the change from held for sale to held for distribution (or vice versa) when an entity reclassifies an asset (or disposal group) directly from one method of disposal to the other should not be considered a new classification, but should instead lead to the continuation of the ~~same~~ classification, presentation and measurement requirements required for each type of disposal in IFRS 5.



- ~~BC8~~ ~~To address the lack of guidance in IFRS 5 BC72H~~ Consequently, when an entity reclassifies an asset (or disposal group) directly from held for sale to held for distribution (or vice versa), the IASB ~~proposes~~decided to ~~state~~clarify that such a reclassification shall not be treated as a change to a plan of sale (or distribution) and an entity shall not follow the guidance in paragraphs 26–29 in IFRS 5 to account for this change. When an entity reclassifies an asset (or disposal group) directly from held for sale to held for distribution (or vice versa), the entity shall continue to apply 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 or as held for distribution ~~27–29~~ of IFRS 5 to account for this change.
- ~~BC9~~BC7I In response to the comments received on the Exposure Draft *Annual Improvements to IFRSs 2012–2014 Cycle* published in December 2013 (the ‘ED’), the IASB noted that the notion of ‘direct reclassification’ in paragraph 26B means that an entity moves from one method of disposal to the other without any significant time lag, so that there is no interruption on the application of the requirements in IFRS 5.
- BC7J In response to the comments received on the ED, the IASB clarified that at the time of the change in disposal an entity would need to update the value of the non-current asset (or disposal group) in accordance with paragraphs 15 or 15A of IFRS 5, and recognise any write down in value (impairment loss) or subsequent reversal shall be recognised in accordance with paragraphs 20–25 of IFRS 5.
- BC7K In response to the comments received on the ED, the IASB further clarified that a change from held for sale to held for distribution (or vice versa) does not change the requirements in IFRS 5 to determine whether a sale (or a distribution) is ‘highly probable’, in accordance with paragraph 8 (and 12A) of IFRS 5. Consequently, the determination of the twelve month period should not restart when such change in method of disposal occurs, but should instead continue to be the same as initially determined by management in its assessment of whether the sale and/or distribution is ‘highly probable’. The IASB also clarified that a change in a disposal method should not be considered an event or circumstance that may extend the period to complete a sale in accordance with paragraph 9 (and the guidance in Appendix B) of IFRS 5 or to complete a distribution.
- BC7L To address the lack of guidance in circumstances in which an entity no longer meets the criteria for held for distribution (without meeting the held-for-sale criteria), the IASB ~~proposes~~decided to clarify that an entity should cease held-for-distribution accounting in the same way as it ceases to apply the held-for-sale accounting when ceasing to meet the held-for-sale criteria.
- BC7M In response to the comments received in the ED the IASB further observed that the amendments to IFRS 5 are required to be applied on a prospective basis to changes in the method of disposal that occur after the first application of the amendments. This is because this requirement is in line with the transition requirements provided by IFRIC 17 when it amended IFRS 5 (see paragraph 44D of IFRS 5).