STAFF PAPER

March 2015

IFRS Interpretations Committee Meeting

Project	IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*		
Paper topic	Scope of classification as held for sale		
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Introduction

1. At the November 2014 meeting, the staff presented to the IFRS Interpretations Committee ('the Interpretations Committee') an analysis on the following issues related to IFRS 5[1]:

   (a) (Issue 1[2]) Scope;

      (i) (Issue 1A) Do certain cases of 'loss of control of a subsidiary' meet the criteria for classifying the subsidiary as held for sale in IFRS 5[3]?

      (ii) (Issue 1B) Is IFRS 5 applicable to a disposal group consisting mainly or entirely of financial instruments?

   (b) (Issue 2) Definition of a 'major line of business'.

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[1] See Agenda Paper 04 for the Interpretations Committee's meeting in November 2014.

[2] The designation of issues in this paper is consistent with the designation used in Agenda Paper 4 at the November 2014 Interpretations Committee meeting.

[3] Paragraph 6 of IFRS 5 states that: "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." (emphasis added)

2. The Interpretations Committee discussed only Issue 1A at its meeting in November 2014, and decided to discuss the rest of the issues at a future meeting.

3. In relation to Issue 1A, the Interpretations Committee discussed the following three cases[4] individually and considered whether they would result in a classification as held for sale:

   (a) (Case 1.1) loss of control of a subsidiary due to dilution of the shares held by the entity;

   (b) (Case 1.2) loss of control of a subsidiary due to call options held by a non-controlling shareholder; and

   (c) (Case 1.3) loss of control of a subsidiary due to modification of the shareholders' agreement.

4. As a result of the discussion, the Interpretations Committee asked the staff to consider the broader question of whether 'loss of control' is key to the inclusion of an event within the scope of IFRS 5 or whether there also needs to be a disposal in order for the event to be classified as held for sale.

5. The purpose of this paper is to addresses the question above[5]. This paper provides:

   (a) the staff's technical analysis;

   (b) the staff's recommendation;

   (c) Appendix A—Summary of the issues in relation to Issue 1A.

6. The key points arising in this paper are that:

   (a) the current requirements of IFRS 5 seems to indicate that a disposal activity has to occur in order for an event to be classified as held for sale or distribution;

[4] A summary of these issues is reproduced in Appendix B of this paper.

[5] The staff are presenting the analysis on Issue 1B and Issue 2 in Agenda Paper 10A at this meeting.

(b) however, we think that expected events resulting in loss of control of a subsidiary even with no (physical) disposal activity should be captured in the financial statements by different classification and presentation, and by measurements that are consistent with a sale plan involving loss of control of a subsidiary. This is because:

(i) they have similar consequences as loss of control through sale transactions or distribution;

(ii) providing similar level of information as required for a sale plan helps users to assess the timing, amount and uncertainty of an entity's future cash flows; and

(iii) application of IFRS 5 to such events would result in provision of information about a significant economic event in a timely manner (ie loss of control of a subsidiary).

(c) we think that expected events resulting in loss of control of a subsidiary have to meet the highly probable criteria to be classified as held for disposal;

(d) the current requirement in IFRS 5 is not clear on whether its principles should be applied to such expected events, because they are not explicitly included in the scope of IFRS 5.

7. Despite the key points described in (b)–(d) in the preceding paragraph, we think that the issue is worth considering further because at this stage we are not sure that the issue can be resolved efficiently through an interpretation or narrow-scope amendment within the confines of existing IFRS.

Staff analysis

Requirements of IFRS 5

8. IFRS 5 sets out classification and measurement requirements for non-current assets (or disposal group) to be disposed of in the following manners:

(a) sale transactions[6];
(b) a sale plan involving loss of control of a subsidiary; and
(c) distribution to owners.

Sale transactions

9. IFRS 5 requires an entity to classify non-current assets as held for sale when the assets' 'carrying amount will be recovered principally through a sale transaction rather than through continuing use'[7]. Paragraphs 7 and 8 of IFRS 5 provide more detailed conditions only within the context of sale transactions that an entity has to meet for such classification.

10. When assets are classified as held for sale, an entity has to measure the assets at the lower of its carrying amount and fair value less costs to sell[8].

Sale plan involving loss of control of a subsidiary

11. Paragraph 8A of IFRS 5 sets out application guidance for a sale plan involving loss of control of a subsidiary, as follows:

> An entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale when the criteria set out in paragraphs 6–8 are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

Distribution to owners

12. Paragraph 12A of IFRS 5 requires an entity to classify a non-current asset (or disposal group) as held for distribution when the entity is committed to distribute the asset (or disposal group) to the owner.

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[6] According to paragraph 10 of IFRS 5, sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with IAS 16 *Property, Plant and Equipment*.

[7] IFRS 5, paragraph 6.

[8] IFRS 5, paragraph 15.

History of IFRS 5 classification scope

13. The IASB originally issued IFRS 5 in 2004. At the time, the only type of transaction within the classification scope of IFRS 5 was sale transactions.

14. Then in 2008 the IASB added application guidance in relation to the classification scope by amending IFRS 5 through *Improvements to IFRSs*. It made it clear that in the case of loss of control of a subsidiary, loss of control is the primary focus rather than the disposal of a majority of the investment as implied by paragraph 6 of IFRS 5.

15. BC24B and BC24C of IFRS 5describe the observations the IASB made during the deliberation of the amendment, as follows:

> BC24B The Board noted that paragraph 6 states that '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.' The Board also noted that IAS 27 *Consolidated and Separate Financial Statements* (as amended in January 2008) defines control and requires a parent to consolidate a subsidiary until control is lost. At the date control is lost, all the subsidiary's assets and liabilities are derecognised and any investment retained in the former subsidiary is recognised. Loss of control is a significant economic event that changes the nature of an investment. The parent-subsidiary relationship ceases to exist and an investor-investee relationship begins that differs significantly from the former parent-subsidiary relationship. Therefore, the new investor-investee relationship is recognised and measured initially at the date when control is lost.
>
> BC24C The Board concluded that, under the sale plan described above, the controlling interest in the subsidiary is, in substance, exchanged for a non-controlling interest. Therefore, in the Board's view,

> being committed to a plan involving loss of control of a subsidiary should trigger classification as held for sale. The Board also noted that this conclusion is consistent with IAS 27.

16. Subsequently in 2009, the classification scope of IFRS 5 was amended to include a classification as held for distribution as a consequence of the issuance of IFRIC Interpretation 17 *Distributions of Non-cash Assets to Owner*. This was because, as stated in BC 60 of IFRIC 17, the Interpretations Committee noted:

> 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.

Staff view

17. We think that the focus of current requirements of IFRS 5 for classification as held for sale seems to be on a loss of control arising from a (physical) disposal activity. In our view, the original scope of IFRS 5 and the subsequent amendments to the scope of IFRS 5 do not seem to cover transactions beyond those involving a (physical) disposal activity, thus, in order for an event to be classified as held for sale, a disposal activity is required to occur.

18. As noted in paragraph 13 of this paper, the classification scope of IFRS 5 originally included only sale transactions. We note that sale transactions, either outright sale or an exchange of assets, involve a disposal activity.

Therefore, we think that the original classification scope of IFRS 5 did not consider events leading to loss of control of assets without a disposal activity.

19. Since the issuance of IFRS 5, the IASB has made amendments to the classification scope of IFRS 5. The IASB made it clear that the following transactions should be accounted for in the same way as assets classified as held for sale:

    (a) a sale plan involving loss of control of a subsidiary; and

    (b) non-current assets (disposal group) to be distributed to owners.

20. When the Interpretations Committee and the IASB discussed the issue of a plan involving loss of control of a subsidiary, the discussion was conducted only within the context of a *sale* plan, and it did not cover any type of plan that did not involve sale transactions[9]. Even though it was noted that '[l]oss of control is a significant economic event that changes the nature of an investment[10]', the amendment to the classification scope did not include transactions other than those involving a sale plan. We are of the view that non-sale plans that result in loss of control of a subsidiary (eg a change in a shareholders' agreement, or dilution of shares) are equally significant as sale plans resulting in loss of control. This is because they all have a potential to result in derecognition of a subsidiary's assets and liabilities that were previously held through controlling interests and the subsequent recognition of non-controlling interests, if any. We think that the extent of the amendment made to the classification scope at that time could indicate that there needed to be a (physical) disposal activity for an event to be classified as held for sale.

21. Further, we note that a distribution of assets to owners, which was the other amendment to the classification scope of IFRS 5, also involves a disposal activity. When discussing an expansion of the classification scope, the Interpretations Committee noted that the 'information required by IFRS 5

[9] See Agenda Paper 3 for the Interpretations Committee's meeting in March 2007 and Agenda Paper 5A for the IASB meeting in July 2007.

[10] IFRS 5 BC24B

[was] important to users of financial statements regardless of the form of a transaction.'[11] Nevertheless, the scope was extended only to include distribution activity, which involves a disposal of assets. We are of the view that this conclusion could also indicate that one of the key considerations in relation to the classification as held for sale or distribution was an existence of a disposal activity because the amendment again did not cover transactions beyond those involving a (physical) disposal activity.

22. On the basis of the analysis, we think that the original classification scope, as well as the subsequent amendments to the scope, indicate that a disposal activity has to occur in order for an event to be classified as held for sale or distribution.

Question 1 for the Interpretations Committee
1. Does the Interpretations Committee agree with the staff analysis in paragraphs 17-22?

Should the principles of IFRS 5 apply to transactions resulting in loss of control of a subsidiary without a (physical) disposal?

23. Notwithstanding our view in paragraph 22, we think that expected loss of control of a subsidiary without a (physical) disposal activity (ie loss of control due to dilution and a change in a shareholders' agreement) should be accounted for in the same way as a sale plan resulting in loss of control of a subsidiary. We think that the principles of IFRS 5 should apply to such an expected event because:

    (a) they have similar consequences as loss of control through sale transactions or distribution;

[11] IFRIC 17 BC60

(b) providing similar information as required for a sale plan helps users to assess the timing, amount and uncertainty of an entity's future cash flows; and

(c) application of IFRS 5 to such events would result in provision of information about a significant economic event in a timely manner (ie loss of control of a subsidiary).

What information does IFRS 5 try to communicate?

24. We note that IFRS 5 requires an entity to provide information that is useful in assessing the amount, timing and uncertainty of future cash flows of an entity, which is consistent with the *Conceptual Framework*. More specifically, an entity is required to provide information about non-current assets (disposal group) with a pattern of cash flows different from those arising from the assets whose carrying amounts are recovered through their continuing use. BC17 of IFRS 5 states:

> […], the Board concluded that providing information about assets and groups of assets and liabilities to be disposed of is of benefit to users of financial statements. Such information should assist users in assessing the timing, amount and uncertainty of future cash flows. The Board understands that this was also the assessment underpinning SFAS 144. Therefore the Board concluded that introducing the notion of assets and disposal groups held for sale makes IFRSs more complete.

How is information about expected loss of control without a (physical) disposal activity relevant in terms of the objective of IFRS 5?

25. We think that similar information, required for a sale plan involving loss of control of a subsidiary, should be required for expected events resulting in loss of control of a subsidiary without a (physical) disposal activity as well, because:

(a) the information captures a significant economic event in a timely manner; and

(b) we think that the particular form of transaction resulting in loss of control should not matter in terms of triggering a change in classification.

26. As noted in paragraph 20 of this paper, we note that loss of control of a subsidiary is a significant economic event. Providing information about it in a timely manner is important to users of financial statements, because they can take into account that information when assessing the amount, timing and uncertainty of an entity's future cash flows. We think that timely provision of such information can be achieved by different classification and measurement of a disposal group (ie assets and liabilities of the subsidiary of which an entity is going to lose control) before loss of control happens, consistent with the IFRS 5 approach.

27. Furthermore, we note that expected events resulting in loss of control, irrespective of a (physical) disposal activity, have similar consequences. The carrying amount of a disposal group is no longer recovered through continuing use. In addition, such events, irrespective of the form of loss of control, all have the potential for derecognition of subsidiary's assets and liabilities that were previously held through controlling interests and recognition of non-controlling interests, if any. We are of the view that because of all these similar consequences they should be accounted for in a similar way. As noted in paragraph BC60 of IFRIC 17, we think that the form of the transaction resulting in loss of control should not matter in terms of triggering a change in classification, because the form does not change the fact that an entity expects to lose control of a subsidiary.

Conclusion

28. On the basis of our analysis, we think that expected events resulting in loss of control of a subsidiary, irrespective of the form of loss of control, should be accounted for consistently with a sale plan involving loss of control of a subsidiary. This is because:

(a) they have similar consequences as loss of control through sale transactions or distribution;

(b) providing similar information as required for a sale plan helps users to assess the timing, amount and uncertainty of an entity’s future cash flows; and

(c) application of IFRS 5 to such events would result in provision of information about a significant economic event in a timely manner (ie loss of control of a subsidiary).

Highly probable assessment

29. As noted in our conclusion in paragraph 28, we think that expected events resulting in loss of control of a subsidiary should be accounted for in the same manner as assets held for sale. However, we think that this should happen only when those expected events are highly probable because:

(a) it contributes to comparability of classification between entities; and

(b) we think that the highly probable assessment is just as relevant for the expected events without a disposal activity.

30. Paragraphs 8 of IFRS 5 and part of paragraph 12A set out highly probable criteria for sale transactions and distribution to owners, respectively. These criteria contain specific criteria. The IASB’s reasoning for this is stated in BC18 of IFRS 5 as follows:

> […] although the held for sale classification begins from an intention to sell the asset, the other criteria for this classification are tightly drawn and are significantly more objective than simply specifying an intention or commitment to sell. Some might argue that the criteria are too specific. However, the Board believes that the criteria should be specific to achieve comparability of classification between entities. […]

31. We think that requiring a highly probable assessment based on specific criteria for expected events resulting in loss of control helps contribute to classification comparability.

32. Additionally, we think that an assessment for highly probable, for expected events leading to loss of control other than sale, is just as relevant as one required for a sale transaction or a distribution. This is because, in any of the cases included in IFRS 5 and the other methods of loss of control that are considered in this paper, the ultimate loss of control of a subsidiary is not entirely at the discretion of the management. For example, we think that loss of control of a subsidiary through exercise of call options by option holders and through outright sale is no different in this respect. This is because these transactions involve a third party, and the entity's management cannot force the third party to buy the subsidiary or exercise the call options. In these cases, the management has to assess the probability of an actual occurrence of sale, not just the likelihood of locating the buyer as well as the exercise of the call options. Therefore, we are of the view that a highly probable assessment should be required for expected events resulting in loss of control of a subsidiary without a disposal activity.

33. Having said that, we note that the highly probable criteria in IFRS 5 relate only to sale transactions and distribution to owners. We note that some criteria may or may not be relevant for expected events resulting in loss of control that are considered in this paper because of the different form of the transactions. We think that further consideration should be given to what highly probable criteria already included in IFRS 5 would or would not apply to these transactions and whether additional factors should be considered.

Is there enough guidance in IFRS 5 for accounting for non-sale plans resulting in loss of control a subsidiary?

34. We do not think that there is enough guidance in IFRS 5 for accounting for non-sale plans resulting in loss of control of a subsidiary.

35. Some might interpret the current IFRS 5 to mean that:

(a) the principles of IFRS 5 should be applied to such plans by analogy, because they have the same consequence as a sale plan involving a loss of control (ie loss of control, and different pattern of cash flows); or that

(b) non-sale plans are outside the scope of IFRS 5, because IFRS 5 focuses on sales transactions, distribution being an exception, which is consistent with our view in paragraphs 17–22 of this paper.

36. We also note that it is not clear what 'otherwise', referred to in 'by sale or otherwise' in the definition of a disposal group, actually includes[12]. It is not clear whether it includes only distribution or it includes some other methods of disposal, because IFRS 5 deals with only two methods of disposal: sale and distribution. We think that this contributes to lack of clarity in the classification scope of IFRS 5.

37. Additionally, many Interpretations Committee members commented that IFRS 5 is not clear on what triggers an expected transaction to be in the scope of IFRS 5 (ie loss of control or disposal activity) during the discussion at its meeting in November 2014.

38. We also note that the outreach performed in relation to accounting for Cases 1.1-1.3, as summarised in Appendix A of this paper, showed mixed views among respondents[13].

Unintended consequences of the proposed amendment

39. We note that if an amendment as proposed in this paper were to be made, we think that it would be more than providing guidance on the current requirements of IFRS 5 because it proposes to expand the classification scope. We are concerned that the amendment could create unintended consequences because more transactions would fall within IFRS 5 and the IASB had not envisaged these transactions when it developed IFRS 5. Therefore, we are of

[12] IFRS 5 Appendix A.

[13] See paragraph 73 Agenda Paper 04 for the Interpretations Committee's meeting in November 2014.

the view that if the Interpretations Committee is inclined to recommend that we proceed with the development of an amendment, it will first be necessary to consider possible unintended consequences before deciding making a formal recommendation to the IASB.

Agenda criteria assessment

Agenda criteria	
We should address issues (see paragraph 5.16 of the *IFRS Foundation Due Process Handbook*):	
that have widespread effect and have, or are expected to have, a material effect on those affected.	In our outreach activity, overall, a majority of respondents said that Issue 1A is not widespread. However, the feedback from global accounting firms indicates that there are mixed views for Issue 1A. Consequently, the outreach has not given a clear indication about whether or not the issue is common. However, we think that it is necessary to take the issue onto the agenda because we think that the current requirements of IFRS are not clear in relation to Issue 1A and this may lead to diversity in practice.
in which financial reporting would be improved through the elimination, or reduction, of diverse reporting methods.	**Yes.** We think that the proposed amendment would promote the consistent application of the guidance in IFRS 5 in circumstances in which an entity is committed to a plan involving loss of control of a subsidiary without a disposal activity (ie loss of control through dilution, exercise of call option, and a change in shareholders' agreement).
that can be resolved efficiently within the confines of existing IFRS and the *Conceptual Framework for Financial Reporting*.	At present, we are not sure that the issue can be resolved efficiently within the confines of existing IFRS. This is because as noted in paragraphs 33 and 39 of this paper, we think that we need to explore the issue further to clearly understand how to amend IFRS 5 and possible unintended consequences of the amendment.
In addition:	
Is the issue sufficiently narrow in scope that the Interpretations Committee can address it in an efficient manner, but not so narrow that it is not cost-effective for it to undertake the due process that would be required when making changes to IFRS (see paragraph 5.17 of the *IFRS Foundation Due Process Handbook*)?	**N/A**

Agenda criteria	
Will the solution developed by the Interpretations Committee be effective for a reasonable time period (see paragraph 5.21 of the *IFRS Foundation Due Process Handbook*)? (The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified).	**N/A**

Summary and staff recommendation

40. A summary of our analysis is that:

    (a) the current requirements of IFRS 5 seem to indicate that a disposal activity has to occur in order for an event to be classified as held for sale or distribution;

    (b) however, we think that expected events resulting in loss of control of a subsidiary even with no (physical) disposal activity should be captured in the financial statements by different classification and presentation, and by measurements that are consistent with a sale plan involving loss of control of a subsidiary. This is because:

        (i) they have similar consequences as loss of control through sale transactions or distribution;

        (ii) providing similar information as required for a sale plan helps users to assess the timing, amount and uncertainty of an entity's future cash flows; and

        (iii) application of IFRS 5 to such events would result in provision of information about a significant economic event in a timely manner (ie loss of control of a subsidiary).

    (c) we think that expected events resulting in loss of control of a subsidiary have to meet the highly probable criteria to be classified as held for disposal; and

(d) the current requirement in IFRS 5 is not clear on whether its principles should be applied to such expected events, because they are not explicitly included within the scope of IFRS 5.

41. On the basis of our analysis on the issue and the assessment of the issue against the agenda criteria, we think that the issue is worth considering further because we think that useful information would be provided if IFRS 5 accounting was applied. However, we think that further consideration is still required:

(a) to determine how an assessment of highly probable should be made; and

(b) to consider whether there would be any unintended consequences of expanding the scope of IFRS 5 to include such transactions.

42. Therefore, we ask the Interpretations Committee if they would like us to continue exploring the issue further before deciding whether or how to amend IFRS 5 in this respect.

Questions 2-3 for the Interpretations Committee
2. Does the Interpretations Committee agree with the staff analysis as summarised above (ie paragraph 40)? 3. Does the Interpretations Committee agree with the staff recommendation as described above (ie paragraphs 41–42)?

Appendix A—Summary of the issues in relation to Issue 1A

A1 The followings are the summary of the issues relating to Issue 1A. These are carried forward from the staff paper presented to the Interpretations Committee at its meeting in November 2014[14].

Case 1.1—Dilution

A2 Entity A controls Entity B having a 67 per cent interest in Entity B[15]. Before the year-end, Entity B issues new shares that are fully subscribed by a new investor (Entity C). Following the increase in share capital, Entity A retains an interest of 44 per cent in Entity B (representing 44 per cent of voting rights)[16]. At the same time, Entities A and C sign an agreement providing new governance rules over Entity B, on the basis of which Entity A is no longer represented on Entity B's Board or in its management. Accordingly, Entity C controls Entity B[17].

A3 Entity A argues that its decision not to subscribe to the issuance of new shares is equivalent to a decision to partly dispose of its interest in Entity B and therefore meets the criteria for the classification of held for sale in IFRS 5[18].

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[14] See Agenda Paper 04 for the Interpretations Committee's meeting in November 2014.

[15] The submitter clarified after the submission that Entity A controls Entity B, although the formal submission does not specify this fact.

[16] The submitter clarified after the submission that Entity has 44 per cent of voting rights, thereby changing the statement in the formal submission that Entity has 30 per cent of voting rights.

[17] The submitter clarified after the submission that Entity C controls Entity B by acquiring the new shares issued by Entity B.

[18] The submitter clarified, after the submission, the meaning of paragraph 8 of the submission as attached in Appendix B of this paper. The submitter said that paragraph 8 of the submission is the argument of the entity in the case justifying why IFRS 5 should be applied to the case of dilution.

Case 1.2—Call option held by a non-controlling shareholder

A4 At 31 December 20X1, Entity A controls Subsidiary S by owning 75 per cent of its shares. Entity B owns the remaining 25 per cent of the shares and has a call option on the shares owned by Entity A. The call option is deep in the money and is exercisable starting from 30 September 20X2. On that basis, Entity B expects to take control over Subsidiary S on 30 September 20X2 and Entity A expects to lose control, cease consolidation of Subsidiary S and account for its investment using the equity method[19].

Case 1.3–Modification of the shareholders' agreement

A5 Entity A controls Subsidiary S on the basis of an agreement with the other three shareholders. The agreement gives Entity A the right to have nine out of the twelve members of the Board of Directors. In November 20X1, Entity A and the other shareholders decide not to renew the agreement ending in July 20X2. On that basis, Entity A will lose control in July 20X2.

Three views identified by the submitter

A6 The submitter notes that there could be three views on this issue as follows:

(a) (View 1) the subsidiaries (ie the disposal group) in the three cases should **not** be classified as held for sale;

(b) (View 2) the subsidiaries (ie the disposal group) in the three cases should be classified as held for sale; and

(c) (View 3) the classification of the subsidiaries (ie the disposal group) may differ depending on each case.

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[19] The submitter clarified after the submission that the call option is exercisable from 30 September 20X2 until 30 September 20X5 for three years and therefore even if Entity B does not exercise the call option on 30 September 20X2, Entity A loses its control, because the call option would be considered as potential voting rights in accordance with IFRS 10 *Consolidated Financial Statements*.

A7 According to the submitter, View 1 is that in defining the criteria to classify non-current assets (or a disposal group) as held for sale, paragraphs 6–8 of IFRS 5 refer only to 'sale' transactions. Hence, the 'loss of control' achieved without involving a sale is not within the scope of IFRS 5, which should not be applied to such assets.

A8 View 2 is that paragraph 5A of IFRS 5 should be applied by analogy to situations of 'loss of control' in the three cases. Paragraph 5A of IFRS 5 reads as follows:

> 5A 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). (emphasis added)

A9 With regard to View 3, the submitter stated as follows:

(a) Some argue that IFRS 5 applies to Case 1 because:

(i) the case of dilution is not addressed by any other IFRSs (neither IFRS 3 *Business Combinations* nor IAS 27 *Consolidated Financial Statements*); and

(ii) the decision to issue new shares, which took place under the control of Entity A, together with Entity A's decision to not subscribe to the issuance of new shares, is a change in the investment strategy of the issuer, which implies that the entity agrees with the dilution and the loss of control. This is economically similar to a decision to sell shares while retaining a continuing interest in the entity.

(b) However, in Case 2, the decision to exercise the call option is not taken by the entity. It could, therefore, be argued that the criterion 'the appropriate level of management is committed to a plan to sell the asset (or disposal group)' in paragraph 8 of IFRS 5 is not met and that management is not directly involved in a plan to sell.

(c) In Case 3, some believe that IFRS 5 leaves room for interpretation. This is because it might be argued that the view that IFRS 5 applies only when an actual sale occurs is not consistent with the principles in IFRS 3 and IFRS 27, which consider that loss of control is a significant event which results in derecognition of all assets and liabilities, even in the absence of a transaction.