STAFF PAPER

May 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

CONTACT(S) Takashi Yamagami tyamagami@ifrs.org +44 (0)20 7246 6410

Introduction

1. The IFRS Interpretations Committee ('the Interpretations Committee') received a request to clarify the accounting treatment in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, related to the scope of the classification as held for sale. The submitter thought that it was not clear whether the scope of IFRS 5 would include transactions, such as those described in the following paragraph.

2. With respect to this request, at its November 2014 meeting, the Interpretations Committee discussed the following three cases individually and considered whether they would result in a classification as held for sale in accordance with IFRS 5[1]:

   (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

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

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

3. 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.

4. At its meeting in March 2015, the Interpretations Committee discussed the analysis included in the staff paper aimed to address the question above.[2] As a result of the discussion, the Interpretations Committee concluded that it is important for the Interpretations Committee to better understand the objective of the scope of IFRS 5 so that it can then decide whether the issue can be addressed through an Interpretation, or whether a broader amendment to IFRS 5 would be necessary.

5. The purpose of this paper is to undertake an analysis of the scope of IFRS 5. This paper provides:

(a) staff technical analysis; and

(b) staff recommendation;

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

(a) The original scope of the held-for-sale classification in IFRS 5 was narrow. It included only sale transactions and exchanges of non-current assets for other non-current assets, providing those exchanges have commercial substance. The held-for-sale classification would be appropriate only when the non-current assets (or disposal groups) to be disposed of are available for immediate sale and a sale is highly probable.

(b) Since 2004, several amendments have been made to IFRS 5. We think that these amendments changed the scope to instead emphasise that:

[2] See Agenda Paper 09 for the Interpretations Committee's meeting in March 2015.

(i) the loss of control is a significant economic event and thus, it triggers the held-for-sale classification provided other relevant criteria are met; and

(ii) the focus on the method of recovery of the carrying amount of non-current assets (or disposal groups) changed from a sale transaction to any methods other than continuing use.

(c) Accordingly, we think that the objective for the scope of the held-for-sale classification under IFRS 5 is to capture non-current assets (or disposal groups) over which an entity is committed to lose control, irrespective of the form of a transaction, and while there will still be a carrying amount of the asset (or disposal group) to be disposed of at the time of disposal. Consistent with the original requirements of IFRS 5, such classification must be supported by the fact that non-current assets (or disposal groups) must be available for immediate disposal, and it is highly probable that the entity will lose control.

Staff technical analysis

Requirements of IFRS 5

7. The types of disposal explicitly referred to in IFRS 5 that can result in an associated asset (or a disposal group) being classified as held for sale if an entity meets the criteria in paragraphs 7‑8 of IFRS 5 include:

(a) sale transactions[3];

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

(c) distributions of non-cash assets to owners.

8. IFRS 5 also prescribes accounting treatments when non-current assets (or disposal groups) are to be abandoned.

[3] 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*.

Sale transactions

9. IFRS 5 requires an entity to classify a non-current asset (or a disposal group) as held for sale when its 'carrying amount will be recovered principally through a sale transaction rather than through continuing use'.[4] Paragraphs 7-8 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.[5]

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.

Distributions of non-cash assets to owners

12. Paragraph 12A of IFRS 5 requires an entity to classify a non-current asset (or a disposal group) as held for distribution when the entity is committed to distribute the asset (or disposal group) to the owner and the entity also meets the other relevant criteria that are included in the same paragraph.

Abandonment

13. Paragraphs 13‑14 of IFRS 5 prohibit an entity from classifying non-current assets (or disposal groups) to be abandoned as held for sale, because in the

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[4] IFRS 5, paragraph 6.

[5] IFRS 5, paragraph 15.

case of an expected abandonment the carrying amount of those assets are recovered principally through their continuing use before the point of the abandonment.

History of IFRS 5 scope of held-for-sale classification

14. The IASB originally issued IFRS 5 in 2004 as part of the short-term convergence project with the US national standard-setter, the Financial Accounting Standards Board. At that time, the only type of transaction that could fall within the scope of held-for-sale classification that IFRS 5 specifically addressed was sale transactions, which included exchanges of non-current assets for other non-current assets in which the exchanges have commercial substance.

15. Then in 2008 the IASB added application guidance in relation to the held-for-sale classification scope by amending IFRS 5 through *Improvements to IFRSs*. The amendment, which added paragraph 8A to IFRS 5, made it clear that in the case of loss of control of a subsidiary through sale, 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.

16. Paragraphs BC24B and BC24C of IFRS 5 describe the observations the IASB made during the deliberation of the amendment, as follows [emphasis added]:

> 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.
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> 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.

17. Subsequently in 2009, the IASB amended the scope of the held-for-sale classification of IFRS 5 to include a classification as held for distribution, which resulted in the addition of paragraph 12A to IFRS 5. This amendment was a consequence of the issue of IFRIC Interpretation 17 *Distributions of Non-cash Assets to Owners*. The reason for the consequential amendment to the scope was because, as stated in BC 60 of IFRIC 17, the Interpretations Committee noted [emphasis added]:

> 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.

18. At that time, the Interpretations Committee thought that an amendment was necessary, rather than an Interpretation of IFRS 5, because it thought at that time that IFRS 5 applied only to non-current assets (or disposal groups) held for sale.[6]

Alternative views

19. We think that there are two views with respect to the scope of the classification as held for sale, as follows:

    (a) View A—types of disposal that are captured by the Standard should be limited to those specifically addressed by the Standard (ie sale transactions and distributions) because:

        (i) the measurement principles in the Standard are an exception to the usual measurement conventions; and

        (ii) even after the amendments to the scope of IFRS 5, the focus remained on sale transactions, with distributions being a specific additional case.

    (b) View B—the amendments that have been made to the scope of IFRS 5 changed the focus on the method of recovery of the carrying amount of non-current assets (or disposal groups) from a sale transaction to any transactions that will result in recovering their carrying amount in a manner other than use. Consequently, the types of disposal that are captured by the Standard should not be limited to those specifically addressed by the Standard.

View A

20. Proponents of View A argue that the measurement principles in IFRS 5 are an exception to the usual measurement conventions, and therefore, transactions that are captured by the Standard should be limited. IFRS 5 requires an entity

[6] IFRIC 17 paragraph BC61.

to measure non-current assets (or disposal groups) at the lower of their carrying amount and their fair value less costs to sell, when they are classified as held for sale. IFRS 5 also requires cessation of depreciation of such assets. They would claim that these accounting treatments are not customary, and therefore, application of such requirements should be applied to only certain types of disposal. They would claim that the limitation of instances that the Standard aims to capture can partly be seen in the detailed criteria in paragraphs 7–8 of IFRS 5.

21. Those proponents also argue that the amendments that have been made to the scope of IFRS 5 since it was issued in 2004 did not result in a shift of the focus on the method of recovery from sale transactions. They view the distribution of non-cash assets to owners, which was added to the scope of IFRS 5 through the issue of IFRIC 17, as a specific additional case. They argue that the consequential amendment of IFRIC 17 to the scope of IFRS 5 only added a distribution of non-cash assets to owners as a new type of disposal and that the scope did not extend to disposal of non-current assets other than through sale transactions or distributions. They think that even though the justification for such addition would be applicable to other forms of a transaction, the Interpretations Committee's decision not to extend the scope to transactions other than sale transactions and distributions is an indication that the scope of IFRS 5 should be limited.

22. In addition, they argue that even when the IASB added the application guidance relating to a sale plan involving a loss of control, the IASB did not expand the scope to include any other transactions that can lead to a loss of control. They would regard this as an indication that the IASB did not intend to expand the scope of IFRS 5 to include other than sale transactions.

23. Consequently, proponents of View A think that the focus on the method of disposal remained the same, with distributions being a specific additional case. Based on this and also the fact that measurement requirements in IFRS 5 are an exception to the usual measurement conventions, they think that the types of disposal that are captured by the Standard should be limited to those specifically addressed by the Standard.

View B

24. Alternatively, proponents of View B argue that the amendments that have been made to the scope of IFRS 5 since IFRS 5 was issued have changed the focus of IFRS 5 to now include transactions other than sale transactions and distributions of non-cash assets to owners. Consequently, the types of disposal that are captured by the Standard should not be limited to those specifically addressed by the Standard.

25. They argue that the amendment made to the scope of IFRS 5 through the issue of IFRIC 17, along with the reasons behind the amendment, effectively changed the focus on the method of recovery from a sale transaction to any transactions, in which the carrying amount of the non-current assets (or disposal groups) is not principally recovered through use before the disposal. The justification given for the amendment was because the Interpretations Committee 'decided that the information required by IFRS 5 is important to users of financial statements regardless of the form of a transaction.'[7] They would claim that such justification would be applicable to disposal activities other than direct sales and distributions of non-cash assets to owners.

26. They also argue that the IASB's observation when it added the application guidance to the scope of IFRS 5, relating to a sale plan involving loss of control, would be applicable to disposal activities other than direct sale transactions. They would claim that the IASB's notion that the '[l]oss of control is a significant economic event' would apply whether such loss of control occurs through sale or not.

27. Consequently, proponents of View B think that the amendments that have been made to the scope of IFRS 5 effectively changed the focus on the method of recovery of the carrying amount of non-current assets (or disposal groups) from a sale transaction to any transactions that will result in recovering their carrying amount through a method other than through use, including non-sale

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[7] IFRIC 17 paragraph BC60.

events leading to loss of control. They, therefore, claim that the types of disposal that should be captured by the Standard are not limited to those specifically addressed by the Standard.

Staff view

Original scope of held-for-sale classification in IFRS 5

28. We are of the view that the original scope of the held-for-sale classification in IFRS 5 included only sale transactions, including exchanges of non-current assets for other non-current assets in which the exchanges had commercial substance. This is because paragraph 6 of IFRS 5 is explicit that the carrying amount of non-current assets (or disposal groups) has to be recovered principally through a sale transaction (rather than through continuing use). In this paragraph, the focus is clearly on a sale transaction rather than on any other means of recovery other than by continuing use of the assets. We note that the IASB's decision to amend IFRS 5 rather than to issue an Interpretation of IFRS 5 when IFRIC 17 was issued, as described in paragraphs 17–18 of this paper, is consistent with this view.

29. We note that since the inception of the Standard it has been clear that non-current assets (or disposal groups) to be abandoned cannot be classified as held for sale. This is because in the case of an expected abandonment the carrying amount of those assets are recovered principally through their continuing use before the point of the abandonment.

Addition of the application guidance relating to loss of control

30. 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.[8] We note that even though that was the case, the

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

important decision that was made through the discussions, and that was eventually incorporated into the Standard, is relevant to transactions other than sale transactions. This is because of the nature of the observation made by the IASB that '[l]oss of control is a significant economic event that changes the nature of an investment'.[9] We note that this is a general statement and that loss of control is a significant economic event, whether it happens through a sale transaction or not.

31. It is worthwhile noting that this notion does not extend to loss of significant influence over an associate and loss of joint control. This is because, as explained in detail in BC23‑30 of IAS 28 *Investments in Associates and Joint Ventures*, unlike loss of control, loss of significant influence and loss of joint control are not significant economic events.

Expansion of the scope of IFRS 5 and its implications

32. We are of the view that the major consequence of the amendment to the scope of IFRS 5 through the issue of IFRIC 17 is that the focus on the method of recovery of the carrying amount of non-current assets (or disposal groups) shifted from a sale transaction to any methods, other than continuing use. We hold this view because of the rationale that the Interpretations Committee had given when it had suggested the amendment to the scope of IFRS 5.

33. We note from paragraph BC60 of IFRIC 17 that the Interpretations Committee noted that although distributions of non-cash assets would not result in recovering their carrying amount through a sale transaction, at the same time their carrying amount is no longer recovered through continuing use. More importantly, the Interpretations Committee noted that 'the information required by IFRS 5 is important to users of financial statements regardless of the form of a transaction'.[10] Part of the reason behind this conclusion was that the Interpretations Committee noted that disposal of non-current assets, whether

[9] IFRS 5 paragraph BC24B.

[10] IFRIC 17 paragraph BC60.

through a sale transaction or distribution, has similar consequences. That is, in either case, an entity expects to lose control of the assets sold or distributed and accordingly, the carrying amount of the assets is not recovered principally through operations. We think that the observation of the Interpretations Committee that the form of a transaction does not matter shows its thinking that the recovery of the carrying amount of non-current assets should not be limited to a sale transaction or distribution.

34. As noted in paragraph 21 of this paper, proponents of View A would argue that the consequential amendment of IFRIC 17 to the scope of IFRS 5 only added a distribution of non-cash assets to owners as a new type of disposal. They would also claim that the scope did not extend to disposal of non-current assets other than through sale transactions or distributions, despite the justification given for such addition. Consequently, they would view distributions of non-cash assets to owners as a specific additional case.

35. Conversely, we are of the view that the limited scope of the amendment does not mean that the IASB or Interpretations Committee wanted to treat distributions of non-cash assets as a specific additional case. This is because we think that the limited scope of the amendment was simply because the issue that the Interpretations Committee addressed through IFRIC 17 focused on distributions of non-cash assets to owners. Moreover, we think that such an interpretation would not be consistent with the Interpretations Committee's view that the form of a transaction does not matter.

36. On the basis of the analysis, we think that the amendment to the scope of IFRS 5 through the issue of IFRIC 17, along with the reasons behind the amendment, effectively changed the focus on the method of recovery from a sale transaction to any transactions, provided that the carrying amount of the non-current assets (or disposal groups) is not principally recovered before the disposal.

Summary of the analysis

37. As analysed above, in relation to the scope of the held-for-sale classification, we note that the Interpretations Committee and the IASB acknowledged that:

(a) the carrying amount of the non-current assets (or disposal groups) to be disposed of will not be recovered principally through continuing use;

(b) the loss of control is a significant economic event and thus, it triggers the held-for-sale classification provided other relevant criteria are met; and

(c) the form of a disposal does not matter, as long as the carrying amount of the non-current assets (or disposal groups) will not be principally recovered through continuing use.

38. On the basis of our observation, in the preceding paragraph, we think that the objective for the scope of the held-for-sale classification under IFRS 5 is to capture a non-current asset (or a disposal group) over which an entity is committed to lose control, irrespective of the form of the transaction, and while there will still be a carrying amount of the asset (or disposal group) to be disposed of at the time of disposal. It is important to note that an entity has to meet other criteria in paragraphs 7–8 of IFRS 5 to be able to classify such assets as held for sale. That is, non-current assets (or disposal groups) over which an entity is committed to lose control still have to be available for immediate disposal and events leading to the loss of control must be highly probable. We note that the objective of these criteria is to enable assessment that loss of control is highly probable.

Application of the conclusion to individual cases discussed in November 2014

39. Reflecting on the three cases that the Interpretations Committee discussed in November 2014, we are of the view that all of the cases would be classified as held for sale if the plan that the entity has committed itself to in each case is expected to result in a loss of control of the subsidiary and if the entity also meets other relevant criteria in paragraphs 7–8 of IFRS 5. This is because in that circumstance the entity is committed to a plan that it expects to result in a loss of control, which is a significant economic event, and also because the

form of a transaction leading to the disposal results in recovery of their carrying amount in a manner other than continuing use.

40. We note that besides meeting the requirement that the carrying amount of non-current assets (or disposal groups) are recovered principally through other than continuing use, an entity has to meet strict criteria prescribed in paragraphs 7‑8 of IFRS 5. We think that these criteria would be met in each case under the following circumstances:

Criteria	Loss of control of a subsidiary through:		
	Case 1.1: Dilution	Case 1.2: Exercise of call option	Case 1.3: Change in shareholder's agreement
Is a disposal group's carrying amount recovered principally through other than continuing use?	would be met because the carrying amount of the disposal group (represented by the controlling interest) would not be recovered principally through operations in the event of a loss of control	would be met because the carrying amount of the disposal group (represented by the controlling interest) would not be recovered principally through operations in the event of a loss of control	would be met because the carrying amount of the disposal group (represented by the controlling interest) would not be recovered principally through operations in the event of a loss of control
If so, is the disposal group available for an immediate disposal?	would be met if there are no restrictions on the transfer of the controlling interests	would be met if there are no restrictions on the transfer of the controlling interests	would be met if there are no restrictions on the transfer of the controlling interests
If so, is the disposal highly probable?			
Is management committed to disposal?	would be met if the management is committed to lose control of a subsidiary by not taking the rights offer	would be met if the management is committed to lose control of a subsidiary by issuing call options so that someone can potentially exercise the	would be met if the management is committed to lose control of a subsidiary by not renewing the shareholders' agreement that currently gives the

Criteria	Loss of control of a subsidiary through:		
	Case 1.1: Dilution	Case 1.2: Exercise of call option	Case 1.3: Change in shareholder's agreement
		options	entity control over the subsidiary
Has an active programme to locate a buyer and to complete the plan been initiated?	not applicable in the given fact pattern[11] because the entity has already identified subscribers of the rights offer[12]	not applicable in the given fact pattern[11] because call options have already been issued to a potential buyer (ie a potential buyer has already been located)[13]	not applicable because there is no buyer involved and also in the given fact pattern,[11] the entity and other shareholders have already decided not to renew the shareholder agreement
Is the disposal group actively marketed at reasonable price?	would be met if the offer price of the share is reasonable	would be met if the exercise price of the option is reasonable in relation to the value of the disposal group	not applicable
Are significant changes to a plan unlikely?	would be met if significant changes to the plan are unlikely	would be met if significant changes to the plan are unlikely	would be met if significant changes to the plan are unlikely
Is the disposal (loss	would be met if the loss	would be met if the loss	would be met if the loss

[11] For details of the fact patterns for each case, see Appendix A in Agenda Paper 09 for the Interpretations Committee's meeting in March 2015.

[12] We think that if the situation is different from the given fact pattern, in that the entity has not located subscribers, the entity should assess this criterion. Under such circumstance, we think that this criterion would be met if an active program to locate subscribers and to complete the plan has been initiated.

[13] We think that if the situation is different from the given fact pattern, in that the entity is considering issuing call options, the entity should assess this criterion. Under such circumstance, we think that this criterion would be met if an active program to locate a buyer and to complete the plan has been initiated.

Criteria	Loss of control of a subsidiary through:		
	Case 1.1: Dilution	Case 1.2: Exercise of call option	Case 1.3: Change in shareholder's agreement
of control) expected within one year?	of control through dilution is expected to occur within one year	of control through exercise of the call option is expected to occur within one year	of control through a change in shareholders' agreement is expected to occur within one year

Summary and staff recommendation

41. A summary of our analysis is that:

(a) The original scope of the held-for-sale classification in IFRS 5 was narrow. It included only sale transactions and exchanges of non-current assets for other non-current assets, providing those exchanges have commercial substance. The held-for-sale classification would be appropriate only when the non-current assets (or disposal groups) to be disposed of are available for immediate sale and a sale is highly probable.

(b) Since 2004, several amendments have been made to IFRS 5. We think that these amendments changed the scope to instead emphasise that:

(i) the loss of control is a significant economic event and thus, it triggers the held-for-sale classification provided other relevant criteria are met; and

(ii) the focus on the method of recovery of the carrying amount of non-current assets (or disposal groups) changed from a sale transaction to any methods other than continuing use.

(c) Accordingly, we think that the objective for the scope of the held-for-sale classification under IFRS 5 is to capture non-current assets (or disposal groups) over which an entity is committed to lose control, irrespective of the form of a transaction, and while there will still be a carrying amount of the asset (or disposal group) to be disposed of at the time of disposal. Consistent with the original requirements of IFRS 5, such classification must be supported by the fact that non-current assets (or disposal groups) must be available for immediate disposal, and it is highly probable that the entity will lose control.

42. We are of the view that our observations summarised in the preceding paragraph can be drawn from the principles that currently exist in IFRS 5. However, we note that the Interpretations Committee has discussed the issue relating to the scope of IFRS 5 over a few meetings without (perhaps until now) reaching a consensus, which indicates that the issue warrants some clarifications to the Standard.

43. Therefore, if the Interpretations Committee agrees with the staff analysis summarised in paragraph 41, we recommend that the Interpretations Committee should bring the issue to the attention of the IASB and ask whether the IASB agrees with its conclusion on the issue, and if so, whether the IASB would like us to address the issue further.

Questions 1-2 for the Interpretations Committee
1. Does the Interpretations Committee agree with the staff analysis as summarised in paragraph 41? 2. Does the Interpretations Committee agree with the staff recommendation as described in paragraph 43?