

## **Introduction and Invitation to Comment**

The International Accounting Standards Board proposes to amend IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary.

The Board invites comments on the proposed amendment. It would particularly welcome answers to the question set out below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The Board is not requesting comments on matters in IFRS 5 not addressed in the exposure draft.

### **Question**

Do you agree with the proposal to add paragraph 8A to IFRS 5 to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary? If not, why?

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

Paragraph 8A is added. Paragraphs 6–8 are included here for ease of reference, but are not proposed for amendment.

**Classification of non-current assets (or disposal groups) as held for sale**

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- 6 An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.**
- 7 For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be *highly probable*.
- 8 For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.
- 8A 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, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.
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## **Basis for Conclusions on 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 draft amendment.*

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- BC1 The Board considered situations in which an entity is committed to a plan to sell the controlling interest in a subsidiary and, after the sale, retains a non-controlling interest in its former subsidiary, taking the form of either an investment in an associate, an investment in a joint venture or a financial asset. The Board considered the question of classification as held for sale in the consolidated financial statements of the entity.
- BC2 The Board noted that 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’. The Board also noted that IAS 27 *Consolidated and Separate Financial Statements* (as revised in 2007) 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.
- BC3 The Board believes that, under the sale plan described above, the controlling interest of 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 believes that this conclusion is consistent with IAS 27.
- BC4 The Board noted that the subsidiary’s assets and liabilities meet the definition of a disposal group in accordance with paragraph 4 of IFRS 5. Therefore, the Board believes that all the subsidiary’s assets and liabilities should be classified as held for sale and not merely the portion of the interest to be disposed of.
- BC5 The Board concluded that an entity that is committed to a sale plan involving loss of control of a subsidiary should classify all the subsidiary’s assets and liabilities as held for sale, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale. The proposed amendment is intended to give effect to the Board’s conclusion.