

STAFF PAPER

June 2014

IASB Meeting

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

1. The Exposure Draft ED/2013/11 *Annual Improvements to IFRSs 2012–2014 Cycle* published in December 2013 (the ED) includes a proposal for an amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* to:
 - (a) clarify the accounting for a change in a disposal plan from a plan to sell to a plan to distribute a dividend in kind to its shareholders; and
 - (b) provide guidance in IFRS 5 for the discontinuation of held-for-distribution accounting.

Purpose of this paper

2. The objective of this paper is:
 - (a) to present to the IASB the Interpretations Committee's recommendations on the proposed amendment to IFRS 5; and
 - (b) to obtain the IASB's decision on the finalisation of this amendment.
3. For a detailed description of the comments received and the source of those comments, the IASB should refer to [Agenda Paper 17A](#) presented to the Interpretations Committee at the May 2014 meeting.

The issue

4. The IASB received a request to clarify the accounting for a change in a disposal plan, from a plan to sell to a plan to distribute a dividend in kind to its shareholders. This was because IFRS 5 does not provide guidance in circumstances in which an entity reclassifies an asset (or a disposal group) directly from held-for-sale (HFS) classification to held-for-distribution (HFD).
5. The IASB observed that IFRIC 17 *Distribution of Non-cash Assets to Owners* amended IFRS 5 to provide guidance to account for a non-current asset (or disposal group) that is classified as HFD but did not provide further guidance when there is a change from HFS to HFD classification (or vice versa). The IASB determined that not providing this specific guidance was an oversight.
6. The IASB analysed the guidance for HFD classification and observed that it was the intention to have consistent criteria and accounting requirements for an asset (or a disposal group) classified as HFS and for an asset (or a disposal group) classified as HFD.
7. Consequently, as part of the Annual Improvements project, the IASB proposed to amend IFRS 5 to clarify that a change from HFS to HFD (or vice versa) when an entity reclassifies an asset (or a disposal group) directly from one method of disposal to the other should not:
 - (a) be considered to be a new classification; and
 - (b) “unwind” the HFS accounting as would otherwise be required by paragraphs 27 to 29 of IFRS 5 on ceasing to meet the HFS classification.
8. Instead, a change from HFS to HFD (or vice versa) should lead to the continuation of the classification, presentation and measurement requirements required for each type of disposal in IFRS 5.
9. In analysing this issue the IASB also observed that there was no specific guidance in IFRS 5 for the discontinuation of HFD accounting, when an entity determines that the asset (or the disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable.

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

Main comments raised by respondents

11. Almost all the respondents fully agreed with the proposal or conditionally agreed subject to some clarifications that they think the IASB should make regarding:
- (a) whether the ‘date of classification’ of a sale changes when there is a change from HFS to HFD (or vice versa);
 - (b) the accounting for the difference that may exist between ‘fair value less costs to sell’ and ‘fair value less costs to distribute’ when there is a change from HFS to HFD (or vice versa); and
 - (c) the meaning of ‘direct reclassification’ from HFS to HFD (or vice versa).

The Interpretations Committee’s recommendations

12. The Interpretations Committee recommended to the IASB that it should finalise the proposed amendments to IFRS 5 by adding some further clarifications.
13. The Interpretations Committee recommends that the IASB should:
- (a) clarify that a change from held for sale (HFS) to held for distribution (HFD) (or vice versa):
 - (i) does not change the ‘date of classification’ as determined in paragraphs 8 and 12A of IFRS 5; and
 - (ii) should not be considered to be an event or circumstance that may extend the period to complete a sale (in accordance with paragraph 9 and Appendix B of IFRS 5) or a distribution.
 - (b) clarify that if an entity reclassifies an asset (or a disposal group) directly from being HFS to HFD (or vice versa), the value of the asset (or the disposal group) is updated in accordance with paragraph 15 or 15A of

IFRS 5. Any write down in value (impairment loss) or subsequent reversal shall be recognised in accordance with paragraphs 20–25 of IFRS 5.

(c) explain that a ‘direct reclassification’ means that an entity moves the disposal group from one method of disposal to another without any time lag, so that there is no interruption of the application of the requirements in IFRS 5 for HFS and HFD disposal methods; judgement may be required to determine if there was a ‘direct reclassification’.

14. The Interpretations Committee also recommends the IASB to revise paragraphs 27(b), 28 and 29 to include some references to ‘HFD’ or ‘costs to distribute’ and add some minor edits to paragraphs 26–29 of IFRS 5.
15. The Interpretations Committee further recommends the IASB to explain that the proposed transition (ie prospective application) is in line with the transition that was required by IFRIC 17 *Distributions of Non-cash Assets to Owners* when it amended IFRS 5. The Interpretations Committee observed that prospective application is required to avoid the potential use of hindsight in connection with the judgement required.

Annual Improvements criteria reassessment

16. We think that the proposed amendment to IFRS 5 continue to meet the Annual Improvements criteria established by the *Due Process Handbook* issued in February 2013, because it clarifies the accounting when an entity changes its disposal plan from held for sale to held for distribution (or vice versa) and where it discontinues held for distribution accounting. These criteria are reported in **Appendix A** of this paper.

Questions for the IASB

1. Does the IASB agree with the Interpretations Committee’s recommendation to finalise, in the Annual Improvements project, the amendments to IFRS 5 and add further changes that would make the proposed amendments clearer?

Appendix A—Interpretations Committee criteria for annual improvements

A1. Our reassessment of the issue against the annual improvements criteria is as follows:

Agenda criteria

We should address issues (5.16):	
that have widespread effect and have, or are expected to have, a material effect on those affected.	Yes. We observe that there is a lack of guidance in IFRS 5 in circumstances where an entity changes its disposal plan (from held for sale to held for distribution) and where it discontinues held for distribution accounting and we think that this issue should be addressed.
where 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 where an entity changes its disposal plan from held for sale to held for distribution (or vice versa) and where it discontinues held for distribution accounting.
that can be resolved efficiently within the confines of existing IFRSs and the <i>Conceptual Framework for Financial Reporting</i> .	Yes. We think that further guidance is needed to clarify that if an entity reclassifies an asset (or disposal group) from being held for sale to being held for distribution (or vice versa). We also think that it should be clarified that in circumstances in which an entity has classified an asset (or disposal group) as held for distribution, but the criteria in paragraph 12A are no longer met, the entity shall cease to classify the asset (or disposal group) as held for distribution and apply the guidance in paragraphs 27–29.
In addition:	
Can the Interpretations Committee address this issue in an efficient manner (5.17)	Yes. We think that the proposed amendment constitutes an annual improvement to IFRS 5 that should be finalised as part of the 2012-2014 annual improvements cycle.
Will it be effective for a reasonable time period (5.21)? Only take on the topic of a forthcoming Standard if short-term improvements are justified.	Yes. The proposed amendment will be effective for a reasonable time period. As we have explained above, the proposed improvement is justified.

Additional criteria for annual improvements

<p>In addition to the implementation and maintenance criteria, an annual improvement should (6.11, 6.12):</p> <ul style="list-style-type: none"> • Replace unclear wording; • Provide missing guidance; or • Correct minor unintended consequences, oversights or conflict. 	<p>Yes. We have observed that current IFRS 5 can be read in a way that a change from held for sale to held for distribution automatically results in a change of plan accounting.</p> <p>Consequently, we think that our proposals to clarify IFRS 5 correct an oversight derived from the amendment to IFRS 5 by IFRIC 17. Our proposals are to clarify the accounting.</p> <p>We think that IFRIC 17 should have also considered for amendment the guidance in paragraphs 26-29 of IFRS 5 to clarify the accounting requirements for a reclassification between held for sale and held for distribution (and vice versa) and when the criteria in paragraph 12A are no longer met.</p>
<p>Not change an existing principle or propose a new principle</p>	<p>Yes. We think that the proposed amendment is not changing an existing principle or proposing a new principle.</p>
<p>Not be so fundamental that the IASB will have to meet several times to conclude (6.14)</p>	<p>Yes. We think that the proposed amendment is not so fundamental that the IASB will have to meet several times to conclude.</p>