

## STAFF PAPER

September 2014

## IFRS Interpretations Committee Meeting

Project	IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>		
Paper topic	Consideration of next steps		
CONTACT(S)	Won-Hee Han	whan@ifrs.org	+44 (0)20 7246 6960

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*.

## Introduction

1. As mentioned in Agenda Paper 3, the IFRS Interpretations Committee (the ‘Interpretations Committee’) discussed two issues relating to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* at its September 2013 meeting. The two issues are as follows:
  - (a) **Issue 1:** how to recognise an impairment loss for a disposal group when the difference between its carrying amount and its fair value less costs to sell exceeds the carrying amount of non-current assets in the disposal group; and
  - (b) **Issue 2:** how to account for the reversal of an impairment loss for a disposal group when the reversal relates to an impairment loss recognised for goodwill.
2. The Interpretations Committee did not reach a consensus on these issues and therefore asked the staff to:
  - (a) **(Request 1)** look at these issues along with other IFRS 5 issues that the IASB had previously considered but not addressed;
  - (b) **(Request 2)** consult current and former IASB staff and members who were involved with the development of IFRS 5; and

- (c)    **(Request 3)** analyse the issues discussed using more complex fact patterns that further illustrate the interaction between non-current assets, current assets and liabilities in the disposal group.
3.    Agenda Papers 3B–3D for this meeting address the requests as noted in paragraph 2, respectively. On the basis of the staff’s conclusions those requests, this paper considers the next steps of addressing the issues relating to IFRS 5.

**A list of IFRS 5 issues that need to be addressed**

4.    We first classify the issues, as Categories A–C, that need to be addressed as below.
5.    The first category of IFRS 5 issues (**Category A**) are the two issues that were mentioned in paragraph 1, which are related to the impairment loss of the disposal group that the Interpretations Committee discussed at its September 2013 meeting:
- (a)    Issue 1—Recognition of an impairment loss of the disposal group; and
  - (b)    Issue 2—A reversal of an impairment loss related to previously impaired goodwill.
6.    The second category of IFRS 5 issue (**Category B**) are the two issues that the IASB discussed but did not lead to an amendment to IFRS 5, as noted in Agenda Paper 3B for this meeting:
- (a)    Issue 3—Definition and disclosures; and
  - (b)    Issue 4—Presentation of other comprehensive income items.
7.    In addition, we have received several new issues (**Category C**) that have yet to be brought to the Interpretations Committee:<sup>1</sup>

---

<sup>1</sup> Issues 5–7 were raised by a same submitter. The submission is provided in Appendix A of this paper. In the submission, ‘a. Scope’ describes Issues 5–6 ‘ and ‘d. Definition of a major line of business’ describes Issue 7.

- (a) Issue 5—Scope issue: application of ‘loss of control’ as described in paragraph 8A of IFRS 5;
- (b) Issue 6—Scope issue: disposal groups consisting mainly of financial instruments; and
- (c) Issue 7—Application of ‘major line of business’ as described in paragraph 32 of IFRS 5.

### Consideration of the next steps

8. With regard to Category A, we note that the Interpretations Committee has not reached a consensus on the issues while discussing them for several meetings, as mentioned in Agenda Paper 3A for this meeting. We also note that the feedback from informal consultations with IASB staff and former IASB members that were involved with the development of IFRS 5 indicates that their views are mixed, especially on Issue 1, as mentioned in Agenda Paper 3C for this meeting.
9. With regard to Category B, we note that the issues are put on hold and transferred to the project on Financial Statements Presentation (FSP project), as mentioned in Agenda Paper 3B for this meeting. We also note that the FSP project has been paused. However, at its July 2014 meeting, the IASB tentatively decided to add a project to its Research Programme on *Performance Reporting* in response to stakeholders’ request for resuming the FSP project<sup>2</sup>.
10. We also observe that the issues in Categories A–C relate to all sections of the requirements in IFRS 5: Issues 1 and 2 relate to recognition and measurement; Issue 3 relates to disclosures; Issues 4 and 7 relate to presentation; Issues 5 and 6 relate to scope.

---

<sup>2</sup> see [IASB Update July 2014](#) and [Agenda Paper 11F for the July 2014 IASB meeting](#).

11. Taking into account these observations, we think that the Interpretations Committee needs to consider how to progress with these issues. We think that two alternatives could be that the Interpretations Committee:
- (a) **(Alternative 1)** informs the IASB of the list of IFRS 5 issues and asks the IASB whether it would best to consider all issues together as part of a broader-scope project on IFRS 5 and if so, asks the IASB whether it wants the Interpretations Committee to undertake any further work on its behalf in relation to this; and
  - (b) **(Alternative 2)** continues the discussion for the issues in Category A and addresses the issues in Category C.

### **Staff recommendation and question for the Interpretations Committee**

12. We think that Issues 1 and 2 in Category A would be addressed more efficiently by taking a comprehensive review of IFRS 5 than by focusing separately on these issues because:
- (a) the issues touches upon the fundamental principle of IFRS 5, that is, what it means to measure the disposal group at fair value less costs to sell; and
  - (b) the Interpretations Committee, as well as IASB staff and some former IASB members, have mixed views on those issues.
13. We also think that this would be an appropriate time to remind the IASB of Issues 3 and 4 in Category B so that those issues can be addressed by a relevant project.
14. In addition, given that there are pending issues in Categories A and B, we think that new issues in Category C would be addressed more appropriately when they are considered in conjunction with the issues in Categories A and B. For example, both Issue 4 in Category B and Issue 7 in Category C relate to the requirements for presenting discontinued operations.
15. Our recommendation, therefore, is that the Interpretations Committee follows **Alternative 1**.

**Question for Interpretations Committee**

1. Does the Interpretations Committee agree with the staff recommendation on the next step to follow Alternative 1 (ie to inform the IASB of the list of IFRS 5 issues and ask the IASB whether it would best to consider all issues together as part of a broader-scope project on IFRS 5 and if so, ask the IASB whether it wants the Interpretations Committee to undertake any further work on its behalf in relation to this)?

## Appendix A— Issues in Category C

### Submission

(with the submitter's information made anonymous)

**Wayne Upton**  
**Chairman of IFRS**  
**IC**  
**Cannon Street 30**  
**London EC4M 6XH**

### **Agenda item request: Issues related to the application of IFRS 5 - Non-current assets held for sale and discontinued operations**

Dear Mr Upton,

[The submitter's information]

We have identified several issues related to the application of IFRS 5 - *Non-current assets and discontinued operations*, which we would like to bring to the attention of the IFRS Interpretations Committee for further consideration. We are aware that the IASB and the IFRS IC discussed during its recent meetings some of the issues linked to the ones raised in this letter. We have included them in the letter in order to provide the IASB with a comprehensive overview of the issues identified in practice on the application and/or enforcement of IFRS 5.

A detailed description of the issues is set out in the appendix to this letter. Please do not hesitate to contact us should you wish to discuss any of the issues we hereby raise.

[The submitter's information]

## Appendix

### IFRS 5 – NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

1. [The submitter] has identified several issues concerning the application of IFRS 5 on the classification and measurement of non-current assets and discontinued operations.
2. [The submitter] is concerned that the absence of certain definitions in IFRS 5, together with the lack of implementation guidance gives a lot of flexibility to entities when classifying and measuring non-current assets held for sale and discontinued operations, and this may impair the comparability and understandability of financial statements.
3. In this paper, [the submitter] has provided some examples to illustrate the concerns mentioned above. They are grouped based on the nature of the matters raised:
  - a. Scope
  - b. Classification as “held for sale”
  - c. Changes to a plan of sale
  - d. Definition of a major line of business
  - e. Unit of account
  - f. Impairment

#### a) Scope

4. [The submitter] has identified divergence in the application of IFRS 5 in relation to both the nature of the transaction which triggered a loss of control and the types of assets included in a disposal group.

#### *a.i) Loss of control over non-current assets or disposal groups*

5. 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]. Paragraph 5A of IFRS 5 indicates that IFRS 5 also applies to a non-current asset (or disposal group) that is classified as held for distribution to owners acting in their capacity as owners.
6. Enforcers have identified the following examples of IFRS 5 being applied to other transactions than formally sales that result in substance in a loss of control: dilution, exercise of call options or modification of a shareholders’ agreement.

#### Case 1 - Dilution

7. Issuer A has a 67% interest in entity B. Before the year-end, entity B issues new shares which are fully subscribed by a new investor (entity C). Following the increase in share capital, issuer A retains an interest of 44% in entity B (representing 30% of voting rights). At the same time, entities A and C sign an agreement providing new governance rules over entity B, based on which issuer A is no longer represented in the entity B’s Board and its management.

8. Issuer A considers that its decision to not subscribe to the issuance of new shares is equivalent to a decision of disinvestment in entity B, such that the investment in entity B will not be recovered principally through the continuing use of the asset.

**Case 2 - Call option given to a non-controlling shareholder**

9. At 31/12/N, issuer A controls subsidiary S by owning 75% of its shares. Entity B owns the remaining 25% of the shares and has a call option on the shares owned by issuer A. The call option is deeply in the money and is exercisable starting with 30/09/N+1. On that basis, entity B expects to take control over subsidiary S on 30/09/N+1 and issuer A expects to lose control, cease consolidation of subsidiary S and account for its investment using the equity method.

**Case 3 - Modification of the shareholders' agreement**

10. Issuer A controls subsidiary S on the basis of an agreement with the other three shareholders. The agreement gives issuer A the right to have nine out of the twelve members of the Board of Directors. In November N, issuer A and the other shareholders decided to not renew the agreement ending in July N+i. On that basis, issuer A will lose control in July N+i.
11. [The submitter] has identified different views on how the situations described above should be accounted for, based on whether the situations were considered to be within or outside the scope of IFRS 5.
12. **View 1:** In defining the criteria to classify non-current assets 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 covered by IFRS 5, which should not be applied to such cases.
13. **View 2:** Paragraph 5A of IFRS 5 should be applied by analogy to situations of loss of control following a dilution, modification of the shareholders' agreement or call option becoming exercisable.
14. Furthermore, there are differing views on each of the transactions other than sale that result in a loss of control, despite the fact that they might capture the same underlying economic outcome. [The submitter] questions whether the underlying economic outcome should not be depicted consistently in the financial statements notwithstanding the event triggering the loss of control.
15. For example, some argue that in Case 1, the loss of control by dilution, IFRS 5 should apply because:
- the case of dilution is not addressed by any other IFRS (neither IFRS 3 *-Business Combinations*, nor IAS 27 *- Consolidated Financial Statements*); and
- the decision to not subscribe to the issuance of new shares is a change in the investment strategy of the issuer implying that the issuer agrees with the dilution and the loss of control, which economically is similar to a decision to sell shares while retaining a continuing interest in the entity.
16. However, in the case of a loss of control due to exercise of a call option given to a third party as referred to in Case 2 above, the decision to exercise or not is not taken by the issuer. 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)” from paragraph 8 of IFRS 5 is not met and that management is not directly involved in a plan to sell.

17. In the case of a loss a control following a change in the shareholders' agreement as referred in case 3 above, some believe that IFRS leaves room for interpretation. 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 IAS 27 which consider that loss of control is a significant event which results in de-recognition of all assets and liabilities, even in the absence of a transaction.

*a.2) Disposal groups consisting mainly of financial instruments*

18. Another issue related to the scope of IFRS 5 has been identified for financial institutions for which disposal groups mainly, or fully, consist of financial instruments sold at loss IFRS 5 excludes from its measurement basis financial assets within the scope of IAS 39 - *Financial instruments: Recognition and measurement*.
19. Appendix A of IFRS 5 defines a disposal group as “a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction”. Paragraph 4 of IFRS 5 states that “[...] the group may include any assets and any liabilities of the entity, including current assets, current liabilities and assets excluded by paragraph 5 from the measurement requirements of this IFRS. If a non-current asset within the scope of the measurement requirements of this IFRS is part of a disposal group, the measurement requirements of this IFRS apply to the group as a whole, so that the group is measured at the lower of its carrying amount and fair value less costs to sell.”
20. While paragraph 4 of IFRS 5 requires the disposal group to be measured according to its provisions, paragraph 5 of IFRS 5 states that financial assets are scoped out for measurement purposes. Therefore, it is not clear whether IFRS 5 applies to disposal groups that consist mainly of financial assets, which is particularly relevant if it is expected that the disposal groups will be sold at loss. In such situations, applying the requirement in paragraph 5 of IFRS 5 would imply that the loss is recognised only when the sale effectively occurs. This conflicts with the measurement principles set out in IFRS 5 for disposal groups that require measurement at fair value less cost to sell at the date of classification as a “disposal group”.

**b) Classification as “held-for-sale”**

21. Paragraph 7 of IFRS 5 provides the criteria to be met before an asset or disposal group is classified as held for sale by defining two elements: availability for immediate sale in its present condition subject only to terms that are usual and customary for sales and that the sale must be highly probable. Paragraph 8 of IFRS 5 provides further guidance on the notion of “highly probable” and the requirements to meet this criterion include the following: the management must be committed to a plan to sell, the asset must be actively marketed for sale at a reasonable price, and an active programme to locate a buyer must exist. It also clarifies that subject to certain exceptions, the sale is expected within one year from the date of classification and actions required to complete the sale indicate that the plan will not be significantly changed or withdrawn.
22. [The submitter] notes that since there are no definitions, guidance or examples that illustrate what can be understood by “actively marketed for sale at a price that is reasonable in relation to its current fair value”, the notions of “highly probable” and “an active programme to locate a buyer” may lead to different interpretations.

23. [The submitter] has already submitted to the IFRS IC a letter on the issue related to application of these requirements to an initial public offer. The following example illustrates further possible application of these concepts (provided that other transactions triggering loss of control, other than sale, are in the scope of IFRS 5 as illustrated in View 2 in Section a.i) of this letter).

Illustrative example

24. The issuer owns a 95% interest in entity S. In March N, the issuer granted to a non-controlling shareholder the right to buy all its shares in S through a call option exercisable between February N+2 and June N+4. The price is the higher of the amount determined through the adjusted net assets method and the price that would ensure a 22% to 25% return on the investment to the issuer, depending on the exercise date. The issue arises in relation to the application of IFRS 5 at the reporting date 30/06/N+1.
25. **View 1:** The issuer should recognise its share in the subsidiary as a non-current asset held-for-sale, because:
- the call option is exercisable from February N+2 onwards, which is less than 12 months after the end of the reporting period. Therefore, in accordance with the consolidation requirements in IAS 27, the issuer will lose control over the subsidiary as it is highly probable that the option will be exercised;
  - it is highly probable that the issuer will not recover the carrying amount of the subsidiary through continuing use;
  - classification as held-for-sale is useful information to users of the financial statements.
26. **View 2:** The issuer should not recognise its share in the subsidiary as non-current asset held-for-sale because:
- the call option does not meet the overall objective of “commitment to sell” by the issuer's management;
  - the subsidiary is not available for immediate sale, as the exercise price of the option needs to ensure a return of investment of 22-25%;
  - the price is not reasonable in relation to its current fair value.

**c) Changes to a plan of sale**

27. Paragraph 8 of IFRS 5 requires a period of no more than one year from the date of classification for an issuer to complete a sale. Paragraph 9 of IFRS 5 provides an exception to this rule (as further detailed by Appendix B of IFRS 5) provided that the entity can demonstrate that the delay is caused by circumstances outside the entity’s control and there is sufficient evidence that the entity remains committed to its plan to sell the asset.
28. However, as the standard does not provide any further guidance for determining a reasonable time limit to the period that it can remain acceptable to consider that the held-for-sale criteria are still met, significant judgement is applied in practice, with a potential adverse impact in terms of comparability. [The submitter] has submitted to the IFRS IC separately a specific issue related to a change in disposal method and notes that an amendment will be proposed in this area. [The submitter] fully supports the IFRS IC’s proposal and would like to illustrate some aspects related to this issue with the example included below.

Illustrative example

29. In its interim financial statements as of 30/06/N+2, the issuer classified certain property, plant and equipment as “Non-current Assets held for sale” based on management’s commitment to dispose of those assets. The issuer has not succeeded selling the assets, mainly because of a downturn in the commercial and residential property market. Consequently, the issuer continued to classify the assets as held-for-sale and measured them at fair value less cost to sell for the next three reporting periods.
30. **View 1:** The issuer justified the accounting treatment based on the following facts:  
 the assets were available for immediate sale since September N+i as they were not in use by the entity since that date;  
 from 30/06/N+2, when the management took the decision to sell the assets, the issuer expected that the “carrying amount would be recovered principally through a sale transaction rather than through continuing use” and the sale was expected to be “highly probable”;  
 the property was actively marketed since 30/06/N+2 for a reasonable price compared with similar transactions;  
 the extent and duration of the downturn in the market was unexpected and beyond the issuer’s control;  
 each reporting period the issuer took the necessary actions to respond to the change in circumstances (i.e. the continued downturn in the property market) by reducing the amount it was willing to accept for the property to a price that was reasonable at each reporting date.
31. **View 2:** After the one year period the assets should have ceased to be classified as held for sale. Although paragraph 9 of IFRS 5, allows extending the one year period, the circumstances when the extended period may be applied are restricted to instances where a sale agreement exists and the delay is solely due to completion of the agreement. The criteria for the sale to be “highly probable” have still to be met. In the case of the issuer, the extended period of three years to actively market the asset and locate a buyer and the continued depressed state of the commercial property market could be seen as a strongly indicator that the sale was no longer “highly probable”.

**d) Definition of a major line of business**

32. In providing the criteria for meeting the definition of a “discontinued operation”, paragraph 32 of IFRS 5 refers to the notion of “a separate line of business or geographical area of operations”. However, IFRS 5 does not define what should be considered as a “separate major line of business”. As part of enforcement activities, enforcers have identified differences in the application of IFRS 5 to this concept as illustrated in the following cases.

## Case 1

33. The issuer disposed of three subsidiaries from the same operating segment during the reporting period. In its financial statements, the issuer treated these three subsidiaries as being a “major lines of business” according to paragraph 32 of IFRS 5, and classified them as “discontinued operations”. It disclosed, therefore, in its statement of comprehensive income, a single line item for the losses made by the subsidiaries over the period and disclosed a separate line - “net result before discontinued operations”.

Case 2

34. The issuer disposed of several subsidiaries during the period. These subsidiaries included a subsidiary in country A, a subsidiary in country B and several subsidiaries operating in Country C. The issuer had operating segments, as defined in IFRS 8 - *Operating Segments*, based on geographical areas. Country A and C's subsidiaries were disclosed separately as operating segments while the subsidiary in country B was included in another operating segment.
35. The issuer considered that only a separate reporting area could qualify as a major geographical area of operations and should be disclosed as discontinued operations. Therefore, it considered that only country A and C's subsidiaries qualify as "major lines of business" according to IFRS 5 and classified them as "discontinued operations". In its statement of comprehensive income, the issuer disclosed separately the result from these subsidiaries. The result of country B's subsidiary was included in the consolidated operating result.

Case 3

36. The issuer disposed of one subsidiary in a geographical area that had been previously disclosed as a separate operating segment on the basis that the Chief Operating Decision Making (CODM) considered its results and activities separately. In considering the requirements of paragraph 32 of IFRS 5, the issuer assessed the impact of the disposal on its results and also that the group continues to operate other businesses in that geographical region and the same type of business in other different geographical regions.
37. The issuer took also into account paragraph BC69 of IFRS 5 which makes reference to the fact that in reaching its conclusion on this issue, the IASB concluded that the application of the US accounting standard definition of a discontinued operation would give rise to the classification of units that were too small, thus indicating that only operations which were of a significant magnitude were intended to constitute a "major" operation.
38. Therefore, despite the fact that the operation was disclosed as an operating segment for IFRS 8 purposes, the issuer concluded that it did not represent a "major" line of business or geographic area of operations for IFRS 5 purposes.

**e) Unit of Account**

39. Paragraph 8A of IFRS 5 states that, "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."
40. Paragraph 15 of IFRS 5 defines the measurement basis for assets classified as held for sale by stating that, "an entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell."
41. However, it is not clear if the measurement basis defined should be applied to all assets and liabilities regardless of whether the entity retains a non-controlling interest and whether the entity shall measure its non-controlling interest taking into account a control premium in transactions when there is a loss of control. It is also not clear if an entity can apply different measurement techniques for the parts disposed and retained.

42. Taking into account its enforcement activities, [The submitter] believes that the unit of account is an important issue that need to be addressed in IFRS 5.
43. [The submitter] notes that the IASB is currently discussing the questions related to the unit of account for financial assets that are investments in subsidiaries, joint ventures and associates measured at fair value in accordance with IFRS 13 - *Fair Value Measurement*. In this context, the interaction with the unit of account for IFRS 5 purposes might be considered.

Illustrative example

44. The issuer holds 100% of the shares of subsidiary A, which constitutes a major line of business for the issuer. In June N, as part of a change in the strategy of its business, the issuer engaged in a plan to dispose of 51% of its shares in the subsidiary. At 30/09/N, the issuer signed an agreement for the sale of 51% of shares in the subsidiary, with the sale expected to be effective before the year end.
45. The issuer classified all assets and liabilities of the subsidiary as held for sale and presented them as a discontinued operation. When applying the measurement principles of IFRS 5, the issuer split the disposal group in two components:
- One component corresponding to the 49% interest retained by the issuer, in which the issuer calculated the “fair value less costs to sell” based on a discounted cash-flows (DCF) model, as evaluated by an independent appraiser;
  - One component corresponding to the 51% interest to be sold for which the issuer considered the contractual transaction price as being the “fair value less costs to sell”. The price of the transaction was determined for the purpose of the sale by another independent appraiser. This value was higher than the value derived from the DCF method, because it included amongst other things, a control premium.
46. As the sum of the values of the two components of the disposal group was lower than its carrying amount before classification as held for sale, the issuer recognised an impairment loss.
47. However, had the issuer measured its holding based on the valuation done to determine the sale, the results of the impairment and the amount recognised in the financial statements on the 49% interest retained would have been different.

**f) Impairment**

48. The requirement of paragraph 15 of IFRS 5 to measure a non-current asset or disposal group held-for-sale at the lower of the carrying amount and fair value less costs to sell may require recognition of an impairment loss, which, in certain circumstances, may subsequently be reversed. According to paragraph 19 of IFRS 5, assets and liabilities that are outside of IFRS 5 scope shall be measured in accordance to the IFRS applicable for those items. Afterwards, an entity shall recognise an initial or subsequent write-down for any excess of the carrying amount over fair value less costs to sell as required by paragraph 20 of IFRS 5.
49. IFRS 5 paragraph 23 indicates that, “the impairment loss (or any subsequent gain) recognised for a disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this IFRS, in the order of allocation set out in IAS 36”.

50. The different measurement requirements in paragraphs 15 and 23 of IFRS 5 seem to conflict as it is possible that the required impairment loss exceeds the carrying value of the non-current assets within the scope of the standard's measurement rules. The issue was already brought to the IFRS IC's attention which referred it to the IASB in 2009. As this issue has not been addressed by the IASB and diversity in practice continued to exist in this area, the IFRS IC discussed this issue again in September 2013. [The submitter] is of the view that additional guidance is needed in order to address existing diversity in practice stemming from the different measurement requirements in IFRS 5.

Illustrative example

51. In December N, the issuer's Board has decided to sell one of its business divisions. In its financial statements for the year end, this business division was presented as a disposal group. Immediately before classifying the disposal group as held-for-sale, the carrying amounts of the assets in the group were measured in accordance with the applicable IFRS. Depreciation and amortisation charges were recognised with regard to the non-current assets of the disposal group and the carrying amounts of the current assets of the disposal group were adjusted to take into account doubtful receivables and obsolete stock.
52. When classifying the division as held-for-sale, the carrying amount of the non-current assets within the scope of IFRS 5 was lower than the amount by which the disposal group's carrying amount exceeded its fair value less costs to sell. In the absence of a specific accounting treatment under IFRS 5, the issuer decided to recognise a separate liability for the adjustment to fair value less costs to sell.