International Financial Reporting Standards (IFRSs) together with their accompanying documents are issued by the International Accounting Standards Board (IASB):

30 Cannon Street, London, EC4M 6XH, United Kingdom.
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: info@ifrs.org Web: www.ifrs.org

IFRS Foundation Publications Department
30 Cannon Street, London, EC4M 6XH, United Kingdom.
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
Email: publications@ifrs.org Web: www.ifrs.org

Approval by the Board of IFRS 5 issued in March 2004

International Financial Reporting Standard 5 *Non-current Assets Held for Sale and Discontinued Operations* was approved for issue by twelve of the fourteen members of the International Accounting Standards Board. Messrs Cope and Schmid dissented. Their dissenting opinions are set out after the Basis for Conclusions on IFRS 5.

Sir David Tweedie	Chairman
Thomas E Jones	Vice-Chairman
Mary E Barth	
Hans-Georg Bruns	
Anthony T Cope	
Robert P Garnett	
Gilbert Gélard	
James J Leisenring	
Warren J McGregor	
Patricia L O'Malley	
Harry K Schmid	
John T Smith	
Geoffrey Whittington	
Tatsumi Yamada	

CONTENTS

BASIS FOR CONCLUSIONS ON IFRS 5 *NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS*

from paragraph

Basis for Conclusions on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

This Basis for Conclusions accompanies, but is not part of, IFRS 5.

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching the conclusions in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Individual Board members gave greater weight to some factors than to others.

BC2 In September 2002 the Board agreed to add a short-term convergence project to its active agenda. The objective of the project is to reduce differences between IFRSs and US GAAP that are capable of resolution in a relatively short time and can be addressed outside major projects. The project is a joint project with the US Financial Accounting Standards Board (FASB).

BC3 As part of the project, the two boards agreed to review each other's deliberations on each of the selected possible convergence topics, and choose the highest quality solution as the basis for convergence. For topics recently considered by either board, there is an expectation that whichever board has more recently deliberated that topic will have the higher quality solution.

BC4 As part of the review of topics recently considered by the FASB, the Board discussed the requirements of SFAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*, as they relate to assets held for sale and discontinued operations. The Board did not consider the requirements of SFAS 144 relating to the impairment of assets held for use. Impairment of such assets is an issue that is being addressed in the IASB research project on measurement being led by the Canadian Accounting Standards Board.

BC5 Until the issue of IFRS 5, the requirements of SFAS 144 on assets held for sale and discontinued operations differed from IFRSs in the following ways:

(a) if specified criteria are met, SFAS 144 requires non-current assets that are to be disposed of to be classified as held for sale. Such assets are remeasured at the lower of carrying amount and fair value less costs to sell and are not depreciated or amortised. IFRSs did not require non-current assets that are to be disposed of to be classified separately or measured differently from other non-current assets.

(b) the definition of discontinued operations in SFAS 144 was different from the definition of discontinuing operations in IAS 35 *Discontinuing Operations* and the presentation of such operations required by the two standards was also different.

BC6 As discussed in more detail below, the Board concluded that introducing a classification of assets that are held for sale would substantially improve the information available to users of financial statements about assets to be sold.

BC7 The Board published its proposals in an Exposure Draft, ED 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations,* in July 2003 with a comment deadline of 24 October 2003. The Board received over 80 comment letters on the Exposure Draft.

Scope of the IFRS

BC8 In ED 4, the Board proposed that the IFRS should apply to all non-current assets except:

(a) goodwill,

(b) financial instruments within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*,

(c) financial assets under leases, and

(d) deferred tax assets and assets arising from employee benefits.

BC9 In reconsidering the scope, the Board noted that the use of the term 'non-current' caused the following problems:

(a) assets that are acquired with the intention of resale were clearly intended to be within the scope of ED 4, but would also be within the definition of current assets and so might be thought to be excluded. The same was true for assets that had been classified as non-current but were now expected to be realised within twelve months.

(b) it was not clear how the scope would apply to assets presented in accordance with a liquidity presentation.

BC10 The Board noted that it had not intended that assets classified as non-current in accordance with IAS 1 *Presentation of Financial Statements* would be reclassified as current assets simply because of management's intention to sell or because they reached their final twelve months of expected use by the entity. The Board decided to clarify in IFRS 5 that assets classified as non-current are not reclassified as current assets until they meet the criteria to be classified as held for sale in accordance with the IFRS. Further, assets of a class that an entity would normally regard as non-current and are acquired exclusively with a view to resale are not classified as current unless they meet the criteria to be classified as held for sale in accordance with the IFRS.

BC11 In relation to assets presented in accordance with a liquidity presentation, the Board decided that non-current should be taken to mean assets that include amounts expected to be recovered more than twelve months after the balance sheet date.

BC12 These clarifications ensure that all assets of the type normally regarded by the entity as non-current will be within the scope of the IFRS.

BC13 The Board also reconsidered the exclusions from the scope proposed in ED 4. The Board noted that the classification and presentation requirements of the IFRS are applicable to all non-current assets and concluded that any exclusions should relate only to the measurement requirements. In relation to the measurement requirements, the Board decided that non-current assets should be excluded only if (i) they are already carried at fair value with changes in fair value recognised in profit or loss or (ii) there would be difficulties in determining their fair value less costs to sell. The Board therefore concluded that only the following non-current assets should be excluded from the measurement requirements of the IFRS

Assets already carried at fair value with changes in fair value recognised in profit or loss:

(a) financial assets within the scope of IAS 39.[1]

(b) non-current assets that have been accounted for using the fair value model in IAS 40 *Investment Property*.

(c) non-current assets that have been measured at fair value less estimated point-of-sale costs in accordance with IAS 41 *Agriculture*[2].

Assets for which there might be difficulties in determining their fair value:

(a) deferred tax assets.

(b) assets arising from employee benefits.

(c) assets arising from insurance contracts.

BC14 The Board acknowledged that the scope of the IFRS would differ from that of SFAS 144 but noted that SFAS 144 covers the impairment of non-current assets held for use as well as those held for sale. Furthermore, other requirements in US GAAP affect the scope of SFAS 144. The Board therefore concluded that convergence with the scope of SFAS 144 would not be possible.

BC14A The Board identified a need to clarify the disclosure requirements for non-current assets (or disposal groups) classified as held for sale or discontinued operations in accordance with IFRS 5. Some believed that IFRS 5 and other IFRSs that specifically refer to non-current assets (or disposal groups) classified as held for sale or discontinued operations set out all the disclosures required in respect of those assets or operations. Others believed that all disclosures required by IFRSs whose scope does not specifically exclude non-current assets (or disposal groups) classified as held for sale or discontinued operations apply to such assets (or disposal groups)[3].

BC14B The Board noted that paragraph 30 of IFRS 5 requires an entity to 'present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).' Paragraph BC17 below states that 'the Board concluded that providing information about assets and groups of assets and liabilities to be disposed of is of

1 The Board acknowledges that not all financial assets within the scope of IAS 39 are recognised at fair value with changes in fair value recognised in profit or loss but it did not want to make any further changes to the accounting for financial assets at this time.

2 In *Improvements to IFRSs* issued in May 2008, the Board amended IAS 41: the term 'estimated point-of-sale costs' was replaced by 'costs to sell'. IFRS 13 *Fair Value Measurement*, issued in May 2011, defines fair value and contains the requirements for measuring fair value.

3 Paragraphs BC14A—BC14E were added by *Improvements to IFRSs* issued in April 2009.

benefit to users of financial statements. Such information should assist users in assessing the timing, amount and uncertainty of future cash flows.'

BC14C The Board noted that some IFRSs other than IFRS 5 require specific disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations. For instance, paragraph 68 of IAS 33 *Earnings per Share* requires an entity to disclose the amount per share for discontinued operations. The Board also noted that the requirements of IAS 1 on fair presentation and materiality also apply to such assets (or disposal groups).

BC14D The Board also noted that when a disposal group includes assets and liabilities that are not within the scope of the measurement requirements of IFRS 5, disclosures about measurement of those assets and liabilities are normally provided in the other notes to the financial statements and do not need to be repeated, unless they better enable users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).

BC14E Consequently, in *Improvements to IFRSs* issued in April 2009, the Board clarified that IFRS 5 and other IFRSs that specifically refer to non-current assets (or disposal groups) classified as held for sale or discontinued operations set out all the disclosures required in respect of those assets or operations. Additional disclosures about non-current assets (or disposal groups) classified as held for sale may be necessary to comply with the general requirements of IAS 1, in particular paragraphs 15 and 125 of that standard.

Classification of non-current assets to be disposed of as held for sale

BC15 Under SFAS 144, long-lived assets are classified as either (i) held and used or (ii) held for sale. Before the issue of this IFRS, no distinction was made in IFRSs between non-current assets held and used and non-current assets held for sale, except in relation to financial instruments.

BC16 The Board considered whether a separate classification for non-current assets held for sale would create unnecessary complexity in IFRSs and introduce an element of management intent into the accounting. Some commentators suggested that the categorisation 'assets held for sale' is unnecessary, and that if the focus were changed to 'assets *retired* from active use' much of the complexity could be eliminated, because the latter classification would be based on actuality rather than what they perceive as management intent. They assert that it is the potential abuse of the classification that necessitates many of the detailed requirements in SFAS 144. Others suggested that, if existing IFRSs were amended to specify that assets retired from active use are measured at fair value less costs to sell and to require additional disclosure, some convergence with SFAS 144 could be achieved without creating a new IFRS.

BC17 However, 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.

BC18 Furthermore, 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. The Board does not believe that a classification 'retired from active use' would necessarily require fewer criteria to support it. For example, it would be necessary to establish a distinction between assets retired from active use and those that are held as back-up spares or are temporarily idle.

BC19 Lastly, if the classification and measurement of assets held for sale in IFRSs are the same as in US GAAP, convergence will have been achieved in an area of importance to users of financial statements.

BC20 Most respondents to ED 4 agreed that a separate classification for non-current assets that are no longer held to be used is desirable. However, the proposals in ED 4 were criticised for the following reasons:

(a) the criteria were too restrictive and rules-based.

(b) a commitment to sell needs to be demonstrated, consistently with the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* relating to restructuring provisions.

(c) the classification should be for assets retired from active use.

(d) assets to be abandoned should be treated in the same way as assets to be sold.

BC21 The Board noted that a more flexible definition would be open to abuse. Further, changing the criteria for classification could cause divergence from US GAAP. The Board has, however, reordered the criteria to highlight the principles.

BC22 The Board also noted that the requirements of IAS 37 establish when a liability is incurred, whereas the requirements of the IFRS relate to the measurement and presentation of assets that are already recognised.

BC23 Finally, the Board reconfirmed the principle behind the classification proposals in ED 4, which is that the carrying amount of the assets will be recovered principally through sale. Applying this principle to assets retired from active use, the Board decided that assets retired from active use that do not meet the criteria for classification as assets held for sale should not be presented separately because the carrying amount of the asset may not be recovered principally through sale. Conversely, the Board decided that assets that meet the criteria to be classified as held for sale and are being used should not be precluded from being separately classified. This is because, if a non-current asset is available for immediate sale, the remaining use of the asset is incidental to its recovery through sale and the carrying amount of the asset will be recovered principally through sale.

BC24 Applying the same principle to assets to be abandoned, the Board noted that their carrying value will never be recovered principally through sale.

Plan to sell the controlling interest in a subsidiary[4]

BC24A In 2007 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 an investment in an associate, an investment in a joint venture or a financial asset. The Board considered how the classification as held for sale applies to the subsidiary in the consolidated financial statements of the entity.

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[5]. 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.

BC24D The Board noted that the subsidiary’s assets and liabilities meet the definition of a disposal group in accordance with paragraph 4. Therefore, the Board concluded that all the subsidiary’s assets and liabilities should be classified as held for sale, not only the portion of the interest to be disposed of, regardless of whether the entity will retain a non-controlling interest.

BC24E The Board considered the comments received on the proposal set out in its exposure draft of October 2007. In response to comments from some respondents, the Board clarified in the amendment that the criteria for classification as held for sale need to be met.

Assets to be exchanged for other non-current assets

BC25 Under SFAS 144, long-lived assets that are to be exchanged for similar productive assets cannot be classified as held for sale. They are regarded as disposed of only when exchanged. The Basis for Conclusions on SFAS 144 explains that this is because the exchange of such assets is accounted for at amounts based on the carrying amount of the assets, not at fair value, and that using the carrying amount is more consistent with the accounting for a long-lived asset to be held and used than for a long-lived asset to be sold.

---

[4] This section and paragraphs BC77A and BC79A were added as a consequence of amendments to IFRS 5 by *Improvements to IFRSs* issued in May 2008.

[5] The consolidation requirements in IAS 27 were superseded, and the definition of control was consequently revised, by IFRS 10 *Consolidated Financial Statements* issued in May 2011. The requirement to consolidate a subsidiary until control is lost did not change.

BC26 Under IAS 16 *Property, Plant and Equipment*, as revised in 2003, an exchange of assets is normally measured at fair value. The SFAS 144 reasoning for the classification of such assets as held for sale does not, therefore, apply. Consistently with IAS 16, the IFRS treats an exchange of assets as a disposal and acquisition of assets unless the exchange has no commercial substance.

BC27 The FASB has published an exposure draft proposing to converge with the requirements in IAS 16 for an exchange of assets to be measured at fair value. The exposure draft also proposes a consequential amendment to SFAS 144 that would make exchanges of assets that have commercial substance eligible for classification as held for sale.

Measurement of non-current assets held for sale

BC28 SFAS 144 requires a long-lived asset or a disposal group classified as held for sale to be measured at the lower of its carrying amount and fair value less costs to sell. A long-lived asset classified as held for sale (or included within a disposal group) is not depreciated, but interest and other expenses attributable to the liabilities of a disposal group are recognised.

BC29 As explained in the Basis for Conclusions on SFAS 144, the remaining use in operations of an asset that is to be sold is incidental to the recovery of the carrying amount through sale. The accounting for such an asset should therefore be a process of valuation rather than allocation.

BC30 The FASB further observed that once the asset is remeasured, to depreciate the asset would reduce its carrying amount below its fair value less costs to sell. It also noted that should there be a decline in the value of the asset after initial classification as held for sale and before eventual sale, the loss would be recognised in the period of decline because the fair value less costs to sell is evaluated each period.

BC31 The counter-argument is that, although classified as held for sale, the asset is still being used in operations, and hence cessation of depreciation is inconsistent with the basic principle that the cost of an asset should be allocated over the period during which benefits are obtained from its use. Furthermore, although the decline in the value of the asset through its use would be reflected in the recognised change in fair value, it might also be masked by an increase arising from changes in the market prices of the asset.

BC32 However, the Board noted that IAS 16 requires an entity to keep the expected useful life and residual values of property, plant and equipment up to date, and IAS 36 *Impairment of Assets* requires an immediate write-down to the higher of value in use and fair value less costs to sell. An entity should, therefore, often achieve a measurement effect for individual assets that are about to be sold under other IFRSs similar to that required by this IFRS as follows. Under other IFRSs, if the fair value less costs to sell is higher than carrying amount there will be no impairment and no depreciation (because the residual value will have been updated). If fair value less costs to sell is lower than carrying amount, there will be an impairment loss that reduces the carrying amount to fair value less costs to sell and then no depreciation (because the residual value will have been updated), unless value in use is higher than fair value less costs to sell. If value in use is higher than fair value less costs to sell, there would be small differences between the treatment that would arise under other IFRSs and the treatment under IFRS 5. Under other IFRSs there would be an impairment loss to the extent that the carrying amount exceeds value in use rather than to the extent that the carrying amount exceeds fair value less costs to sell. Under other IFRSs, there would also then be depreciation of the excess of value in use (the new carrying amount of the asset) over fair value less costs to sell (its residual value). However, for assets classified as held for sale, value in use will differ from fair value less costs to sell only to the extent of the net cash flows expected to arise before the sale. If the period to sale is short, this amount will usually be relatively small. The difference in impairment loss recognised and subsequent depreciation under other IFRSs compared with the impairment loss and no subsequent depreciation under IFRS 5 would, therefore, also be small.

BC33 The Board concluded that the measurement requirements of IFRS 5 for individual assets would often not involve a significant change from the requirements of other IFRSs. Furthermore, the Board agreed with the FASB that the cash flows arising from the asset's remaining use were incidental to the recovery of the asset through sale and, hence, concluded that individual assets classified as held for sale should be measured at the lower of carrying amount and fair value less costs to sell and should not be depreciated.

BC34 For disposal groups, there could be greater differences between the requirements in other IFRSs and the requirements of IFRS 5. For example, the fair value less costs to sell of a disposal group may reflect internally generated goodwill to the extent that it is higher than the carrying value of the net assets in the disposal group. The residual value of the non-current assets in the disposal group may, nonetheless, be such that, if they were accounted for in accordance with IAS 16, those assets would be depreciated.

BC35 In such a situation, some might view the requirements in IFRS 5 as allowing internally generated goodwill to stop the depreciation of non-current assets. However, the Board does not agree with that view. Rather, the Board believes that the internally generated goodwill provides a buffer against the recognition of an impairment loss on the disposal group. The same effect arises from the impairment requirements in IAS 36. The non-depreciation of the non-current assets in the disposal group is, as with individual assets, a consequence of the basic principle underlying the separate classification, that the carrying amount of the asset will be recovered principally through sale, not continuing use, and that amounts recovered through continuing use will be incidental.

BC36 In addition, it is important to emphasise that IFRS 5 permits only an asset (or disposal group) that is to be *sold* to be classified as held for sale. Assets to be abandoned are classified as held and used until disposed of, and thus are depreciated. The Board agrees with the FASB's observation that a distinction can be drawn between an asset that is to be sold and an asset that is to be abandoned, because the former will be recovered principally through sale and the latter through its continuing use. Therefore, it is logical that depreciation should cease in the former but not the latter case.

BC37 When an asset or a disposal group held for sale is part of a foreign operation with a functional currency that is different from the presentation currency of the group, an exchange difference will have been recognised in equity[6] arising from the translation of the asset or disposal group into the presentation currency of the group. IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires the exchange difference to be 'recycled' from equity to profit or loss on disposal of the operation. The question arises whether classification as held for sale should trigger the recycling of any exchange differences. Under US GAAP (EITF 01-5 *Application of FASB Statement No. 52 to an Investment Being Evaluated for Impairment That Will Be Disposed Of*) the accumulated foreign currency translation adjustments previously recognised in other comprehensive income that are expected to be recycled in income at the time of sale are included in the carrying amount of the asset (or disposal group) being tested for impairment.

BC38 In its project on reporting comprehensive income, the Board may reconsider the issue of recycling. Therefore, it did not wish to make any interim changes to the requirements in IAS 21. Hence, the IFRS does not permit any exchange differences to be recycled on the classification of an asset or a disposal group as held for sale. The recycling will take place when the asset or disposal group is sold.

The allocation of an impairment loss to a disposal group

BC39 Under SFAS 144 and the proposals in ED 4, assets within the disposal group that are not within the scope of the IFRS are adjusted in accordance with other standards before measuring the fair value less costs to sell of the disposal group. Any loss or gain recognised on adjusting the carrying amount of the disposal group is allocated to the carrying amount of the long-lived assets of the group.

BC40 This is different from the requirements of IAS 36 for the allocation of an impairment loss arising on a cash-generating unit. IAS 36 requires an impairment loss on a cash-generating unit to be allocated first to reduce the carrying amount of goodwill and then to reduce pro rata the carrying amounts of the other assets in the unit.

BC41 The Board considered whether the allocation of an impairment loss for a disposal group should be consistent with the requirements of IAS 36 or with the requirements of SFAS 144. The Board concluded that it would be simplest to require the same allocation as is required by IAS 36 for cash-generating units. Although this is different from SFAS 144, the disposal group as a whole will be measured at the same amount.

Newly acquired assets

BC42 SFAS 144 requires, and ED 4 proposed, newly acquired assets that meet the criteria to be classified as held for sale to be measured at fair value less costs to sell on initial recognition. So, in those instances, other than in a business combination, in which an entity acquires a non-current asset that meets the criteria to be classified as held for sale, a loss is recognised in profit or loss if the cost of the asset exceeds its fair value less costs to sell. In the more common cases in which an entity acquires, as part of a business combination, a non-current asset (or disposal group) that meets the criteria to be classified as held for sale, the difference between fair value and fair value less costs to sell is recognised in goodwill.

BC43 Some respondents to ED 4 noted that measuring newly acquired assets not part of a business combination at fair value less costs to sell was inconsistent with the general proposal that assets classified as held for sale should be measured at *the lower of carrying amount* and fair value less costs to sell. The Board agreed and amended the requirement so that it is clear that the newly acquired assets (or disposal groups) are measured on initial recognition at the lower of what their carrying amount would be were they not classified as held for sale (ie cost) and fair value less costs to sell.

---

6 As a consequence of the revision of IAS 1 *Presentation of Financial Statements* (as revised in 2007) such a difference is recognised in other comprehensive income.

BC44 In relation to business combinations, the Board noted that conceptually the assets should be recognised initially at fair value and then immediately classified as held for sale, with the result that the costs to sell are recognised in profit or loss, not goodwill. In theory, if the entity had factored the costs to sell into the purchase price, the reduced price would lead to the creation of negative goodwill, the immediate recognition of which in profit or loss would offset the loss arising from the costs to sell. Of course, in practice, the reduced price will usually result in lower net positive goodwill rather than negative goodwill to be recognised in profit or loss. For that reason, and for the sake of convergence, the Board concluded that in a business combination non-current assets that meet the criteria to be classified as held for sale on acquisition should be measured at fair value less costs to sell on initial recognition.

BC45 The Board and the FASB are considering which items should form part of the business combination transaction more generally in their joint project on the application of the purchase method. This consideration includes whether the assets and liabilities recognised in the transaction should be based on the acquirer's or the acquiree's perspective. The outcome of those deliberations may affect the decision discussed in paragraph BC44.[7]

Recognition of subsequent increases in fair value less costs to sell

BC46 The Board considered whether a subsequent increase in fair value less costs to sell should be recognised to the extent that it reversed previous impairments. SFAS 144 requires the recognition of a subsequent increase in fair value less costs to sell, but not in excess of the cumulative loss previously recognised for a write-down to fair value less costs to sell. The Board decided that, under IFRSs, a gain should be recognised to the extent that it reverses any impairment of the asset, either in accordance with the IFRS or previously in accordance with IAS 36. Recognising a gain for the reversal of an impairment that occurred before the classification of the asset as held for sale is consistent with the requirement in IAS 36 to recognise reversals of impairment.

Recognition of impairment losses and subsequent gains for assets that, before classification as held for sale, were measured at revalued amounts in accordance with another IFRS

BC47 ED 4 proposed that impairment losses and subsequent gains for assets that, before classification as held for sale, were measured at revalued amounts in accordance with another IFRS should be treated as revaluation decreases and increases according to the standard under which the assets had previously been revalued, consistently with the requirements of IAS 36, except to the extent that the losses and gains are caused by the initial recognition of, or changes in, costs to sell. ED 4 also proposed that costs to sell should always be recognised in profit or loss.

BC48 Many respondents disagreed with these proposals, because of their complexity and because of the resulting inconsistent treatment of assets classified as held for sale. The Board considered the issues raised and decided that assets that were already carried at fair value with changes in fair value recognised in profit or loss should not be subject to the measurement requirements of the IFRS. The Board believes that, for such assets, continued measurement at fair value gives better information than measurement at the lower of carrying amount and fair value less costs to sell. The Board did not, however, believe that such treatment was appropriate for assets that had been revalued in accordance with IAS 16 and IAS 38, because those standards require depreciation to continue and the revaluation change would not necessarily be recognised in profit or loss. The Board concluded that assets that had been revalued in accordance with IAS 16 and IAS 38 should be treated in the same way as any assets that, before classification as held for sale, had not been revalued. Such an approach results in a consistent treatment for assets that are within the scope of the measurement requirements of the IFRS and, hence, a simpler standard.

Measurement of assets reclassified as held for use

BC49 Under SFAS 144, when an entity changes its plan to sell the asset and reclassifies a long-lived asset from held for sale to held and used, the asset is measured at the lower of (a) the carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation (or amortisation) that would

[7] In their joint project on the application of the acquisition method, the Board, and the FASB clarified that the classification of assets acquired in a business combination as held for sale should be based on the acquirer's perspective. Therefore, the acquirer would have to satisfy the criteria in paragraph 6-11 of IFRS 5 at the acquisition date in order to classify assets acquired as held for sale on initial recognition.

have been recognised had the asset (or disposal group) been continuously classified as held and used and (b) its fair value at the date of the decision not to sell.

BC50 The underlying principle is to restore the carrying value of the asset to what it would have been had it never been classified as held for sale, taking into account any impairments that may have occurred. In fact, SFAS 144 requires that, for held and used assets, an impairment is recognised only if the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposal. Thus, the carrying amount of the asset if it had never been classified as held for sale might exceed its fair value. As a result, SFAS 144 does not necessarily lead to the asset reverting to its original carrying amount. However, the Basis for Conclusions on SFAS 144 notes that the FASB concluded it would be inappropriate to write up the carrying amount of the asset to an amount greater than its fair value solely on the basis of an undiscounted cash flow test. Hence, it arrived at the requirement for measurement at the lower of (a) the asset's carrying amount had it not been classified as held for sale and (b) fair value at the date of the decision not to sell the asset.

BC51 IAS 36 has a different measurement basis for impaired assets, ie recoverable amount. The Board concluded that to be consistent with the principle of SFAS 144 and also to be consistent with the requirements of IAS 36, an asset that ceases to be classified as held for sale should be measured at the lower of (a) the carrying amount that would have been recognised had the asset not been classified as held for sale and (b) its recoverable amount at the date of reclassification. Whilst this is not full convergence, the difference arises from differences in the US GAAP and IFRS impairment models.

Removal of exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale

BC52 SFAS 144 removed the exemption from consolidation in US GAAP for subsidiaries held on a temporary basis on the grounds that all assets held for sale should be treated in the same way, ie as required by SFAS 144 rather than having some assets consolidated and some not.

BC53 The Board agreed that all subsidiaries should be consolidated and that all assets (and disposal groups) that meet the criteria to be classified as held for sale should be treated in the same way. The exemption from consolidation in IAS 27 *Consolidated and Separate Financial Statements* for subsidiaries acquired and held exclusively with a view to resale prevents those assets and disposal groups within such subsidiaries that meet the criteria to be classified as held for sale from being treated consistently with other assets and disposal groups. ED 4 therefore proposed that the exemption in IAS 27 should be removed.[8]

BC54 Some respondents disagreed with this proposal, on the grounds that the information provided by consolidation of such subsidiaries would be less useful than that provided by the current requirement to measure the investment in such subsidiaries at fair value. The Board noted that the impact of the proposals in ED 4 would be limited to the following:

(a) the measurement of a subsidiary that currently is within the scope of the exemptions would change from fair value as required by IAS 39 to the lower of cost and fair value less costs to sell.

(b) any change in fair value of the investment in the subsidiary would, in accordance with the current requirements in IAS 27, be presented as a single amount in profit or loss as a held-for-trading financial asset in accordance with IAS 39. As discussed in paragraph BC72, the subsidiary would be a discontinued operation and, in accordance with the IFRS's requirements (see paragraphs BC73–BC76), any recognised change in the value of the disposal group that comprises the subsidiary would be presented as a single amount in profit or loss.

(c) the presentation in the balance sheet would change from a single amount for the investment in the subsidiary to two amounts—one for the assets and one for the liabilities of the disposal group that is the subsidiary.[9]

BC55 The Board reaffirmed its conclusion set out in paragraph BC53. However, it noted that the limited impact of the proposals apply only to the amounts required to be presented on the face of the balance sheet and the income statement. Providing the required analyses of those amounts in the notes could potentially involve the entity having to obtain significantly more information. The Board therefore decided not to require the disclosure of the analyses of the amounts presented on the face of the balance sheet and income statement for newly acquired subsidiaries and to clarify in an example the computational short cuts that could be used to arrive at the amounts to be presented on the face of the balance sheet and income statement.

8 The consolidation requirements in IAS 27 were superseded, and the definition of control was consequently revised, by IFRS 10 *Consolidated Financial Statements* issued in May 2011. IFRS 10 does not contain an exception from consolidation for subsidiaries acquired and held exclusively with a view to resale.

9 Greater disaggregation of the disposal group in the statement of financial position is permitted but not required.

Presentation of non-current assets held for sale

BC56 SFAS 144 requires an entity to present:

(a) a long-lived asset classified as held for sale separately in the balance sheet; and

(b) the assets and liabilities of a disposal group classified as held for sale separately in the asset and liability sections of the balance sheet. The major classes of those assets and liabilities are separately disclosed either on the face of the balance sheet or in the notes.

BC57 In the Basis for Conclusions on SFAS 144 the FASB noted that information about the nature of both assets and liabilities of a disposal group is useful to users. Separately presenting those items in the balance sheet provides information that is relevant. Separate presentation also distinguishes those assets that are not being depreciated from those that are being depreciated. The Board agreed with the FASB's views.

BC58 Respondents to ED 4 noted that the separate presentation within equity of amounts relating to assets and disposal groups classified as held for sale (such as, for example, unrealised gains and losses on available-for-sale assets and foreign currency translation adjustments) would also provide useful information. The Board agreed and has added such a requirement to the IFRS.

Timing of classification as, and definition of, discontinued operations

BC59 With the introduction of SFAS 144, the FASB broadened the scope of a discontinued operation from a 'segment of a business' to a 'component of an entity'. A component is widely drawn, the criterion being that it comprises 'operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity'. SFAS 144 states that a component may be a segment, a reporting unit, a subsidiary or an asset group.

BC60 However, at the same time, the FASB specified more restrictive criteria for determining *when* the component is classified as discontinued and hence when its results are presented as discontinued. SFAS 144 requires a component to be classified as discontinued only if it has been disposed of or if it meets the criteria for classification as an asset 'held for sale'.

BC61 The definition of a discontinuing operation in IAS 35 as a 'major line of business' or 'geographical area of operations' is closer to the former, and narrower, US GAAP definition. The trigger in IAS 35 for classifying the operation as discontinuing is the earlier of (a) the entity entering into a binding sale agreement and (b) the board of directors approving and announcing a formal disposal plan. Although IAS 35 refers to IAS 37 for further guidance on what constitutes a plan, the criteria are less restrictive than those in SFAS 144.

BC62 Paragraph 12 of the *Framework*[10] states that the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. Paragraph 15 of the *Framework* goes on to state that the economic decisions that are taken by users of financial statements require an evaluation of the ability of an entity to generate cash and cash equivalents. Separately highlighting the results of discontinued operations provides users with information that is relevant in assessing the ongoing ability of the entity to generate cash flows.

BC63 In terms of the timing of classifying an operation as discontinued, the Board considered whether more useful information is provided by making the classification conditional upon a firm decision to discontinue an operation (the current IAS 35 approach) or conditional upon the classification of an operation as held for sale.

BC64 The Board decided that, to be consistent with the presentation of assets held for disposal and in the interests of convergence, an operation should be classified as discontinued when it is disposed of or classified as held for sale.

BC65 IAS 35 also adopts a different approach from US GAAP when criteria for classification as discontinued are met after the period-end but before the financial statements are issued. SFAS 144 requires some disclosure; however, the component is *not* presented as a discontinued operation. IAS 35 requires the component to be classified as discontinuing.

---

[10] References to the *Framework* are to IASC's *Framework for the Preparation and Presentation of Financial Statements*, adopted by the IASB in 2001. In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*. Paragraphs 12 and 15 were superseded by Chapter 1 of the *Conceptual Framework.*

BC66 The Board believes that, consistently with IAS 10 *Events after the Balance Sheet Date*[11], a component should not be classified as discontinued in the financial statements unless it meets the criteria to be so classified at the balance sheet date.

BC67 In terms of the definition of a discontinued operation, ED 4 proposed adopting the SFAS 144 definition of a discontinued operation. The Board argued that under existing IAS 35 there may be disposal transactions that, although likely to have an impact on the ongoing operations of the entity, do not meet the criteria for classification as a discontinuing activity. For example, an entity might dispose of a significant portion, but not all, of its cash-generating units operating in a particular geographical area. Under IAS 35, that might not meet the definition of a discontinuing operation. Under SFAS 144, if the relevant criteria were met, it would.

BC68 However, a substantial majority of respondents to ED 4 disagreed with this proposal. They preferred instead to retain the IAS 35 criterion that a discontinued operation should be a major line of business or geographical area of operations.

BC69 The Board reconsidered the issue in the light of the comments received and concluded that the size of unit that could be classified as discontinued in accordance with SFAS 144 was too small, with the result that the information provided by separately presenting discontinued operations may not be as useful as it could be.

BC70 The Board also noted that the FASB Emerging Issues Task Force (EITF) is considering practical problems that have arisen in implementing the criteria for discontinued operations in SFAS 144. Specifically, the EITF is considering (a) the cash flows of the component that should be considered in the determination of whether cash flows have been or will be eliminated from the ongoing operations of the entity and (b) the types of continuing involvement that constitute significant continuing involvement in the operations of the disposal component. As a result of these practical problems, the Board further concluded that it was not appropriate to change the definition of a discontinued operation in a way that was likely to cause the same problems in practice as have arisen under SFAS 144.

BC71 The Board therefore decided that it would retain the requirement in IAS 35 that a discontinued operation should be a major line of business or geographical area of operations, noting that this will include operations that would have been excluded from the US definition before SFAS 144, which was based on a reporting segment. However, the Board regards this as an interim measure and intends to work with the FASB to arrive at a converged definition within a relatively short time.

BC72 Lastly, the Board considered whether newly acquired subsidiaries that meet the criteria to be classified as held for sale should always be classified as discontinued. The Board concluded that they should be so classified because they are being disposed of for one of the following reasons:

(a) the subsidiary is in a different line of business from the entity, so disposing of it is similar to disposing of a major line of business.

(b) the subsidiary is required to be disposed of by regulators because the entity would otherwise have too much of a particular type of operation in a particular geographical area. In such a case the subsidiary must be a significant operation.

Changes to a plan of sale (amendment 2011)

BC72A During its redeliberation of the exposure draft ED 9 *Joint Arrangements* the Board decided that if a disposal group or non-current asset that ceases to be classified as held for sale is a subsidiary, a joint operation, a joint venture, an associate, or a portion of an interest in a joint venture or associate, an entity should amend its financial statements for the periods since the classification as held for sale was made.

Presentation of discontinued operations

BC73 SFAS 144 requires the results of a discontinued operation to be presented as a separate component in the income statement (net of income tax) for all periods presented.

BC74 IAS 35 did not require the results of a discontinuing operation to be presented as a net amount on the face of the income statement. Instead, specified items are disclosed either in the notes or on the face of the income statement.

[11] In September 2007 the title of IAS 10 was amended from *Events after the Balance Sheet Date* to *Events after the Reporting Period* as a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007.

BC75 In ED 4, the Board noted that it was considering the presentation of discontinued operations in the income statement in its project on reporting comprehensive income and that it did not wish to prejudge the outcome of that project by changing the requirements of IAS 35 in respect of the components to be disclosed. Given that the project on reporting comprehensive income will not be completed as soon as previously expected, the Board decided to proceed with its decisions on the presentation of discontinued operations in this IFRS.

BC76 The Board believes that discontinued operations should be shown in a section of the income statement separately from continuing operations because of the different cash flows expected to arise from the two types of operations. The Board concluded that it is sufficient to show a single net figure for discontinued operations on the face of the income statement because of the limited future cash flows expected to arise from the operations. The IFRS therefore permits an analysis of the single net amount to be presented either in the notes or in the income statement.[12]

BC77 A substantial majority of the respondents to ED 4 supported such a presentation.

BC77A The Board considered the comments received on the draft amendments in the 2007 exposure draft of proposed *Improvements to International Financial Reporting Standards*. Some respondents asked the Board to clarify the effects of the proposed amendment on the income statement when the disposal group meets the definition of a discontinued operation. The Board concluded that when a subsidiary is a disposal group that meets the definition of a discontinued operation in accordance with paragraph 32, an entity that is committed to a sale plan involving loss of control of the subsidiary should disclose the information required by paragraphs 33–36. The Board agreed with respondents that presentation should not differ simply because of the form of the disposal group.

Transitional arrangements

BC78 Some respondents to ED 4 noted that there could be difficulties in obtaining the information necessary to apply the IFRS retrospectively. The Board agreed that hindsight might be involved in determining at what date assets or disposal groups met the criteria to be classified as held for sale and their fair value at that date. Problems might also arise in separating the results of operations that would have been classified as discontinued operations in prior periods and that had been derecognised in full before the effective date of the IFRS.

BC79 The Board therefore decided to require application of the IFRS prospectively and allow retrospective application only when the necessary information had been obtained in the prior periods in question.

BC79A The Board concluded that the effective date of the amendments in paragraphs 8A and 36A for presentation purposes should be 1 July 2009 to be consistent with the effective date of the amendments to IAS 27 (as amended in January 2008) for measurement purposes. Because paragraph 45(c) of IAS 27 provides an exception to retrospective application of the amendments relating to the loss of control of a subsidiary for measurement purposes, the Board required an entity to consider the applicable transitional provisions in IAS 27 when implementing the amendments in paragraphs 8A and 36A[13].

Terminology

BC80 Two issues of terminology arose in developing the IFRS:

(a) the use of the term ‘probable’ and

(b) the use of the term ‘fair value less costs to sell’[14].

BC81 In SFAS 144, the term *probable* is described as referring to a future sale that is ‘likely to occur’. For the purposes of IFRSs, probable is defined as ‘more likely than not’. To converge on the same meaning as SFAS 144 and to avoid using the term ‘probable’ with different meanings in IFRSs, this IFRS uses the phrase ‘highly probable’. The Board regards ‘highly probable’ as implying a significantly higher probability than ‘more likely than not’ and as implying the same probability as the FASB’s phrase ‘likely to occur’. This is consistent with the Board’s use of ‘highly probable’ in IAS 39.

---

12 IAS 1 *Presentation of Financial Statements* (as revised in 2007) requires an entity to present all income and expense items in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income.

13 The consolidation requirements in IAS 27 were superseded, and the definition of control was consequently revised, by IFRS 10 *Consolidated Financial Statements* issued in May 2011. Paragraph 45(c) in IAS 27 was moved to paragraph 6(c) of IFRS 10; however, the transition provisions were not changed.

14 IFRS 13, issued in May 2011, defines fair value and contains the requirements for measuring fair value.

BC82 The measurement basis 'fair value less costs to sell' used in SFAS 144 is the same as the measurement 'net selling price' used in IAS 36 (as issued in 1998). SFAS 144 defines fair value of an asset as 'the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale', and costs to sell as 'the incremental direct costs to transact a sale, that is, the costs that result directly from and are essential to a sale transaction and that would not have been incurred by the entity had the decision to sell not been made.' IAS 36 defines net selling price as the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expenses.

BC83 The Board considered using the phrase 'net selling price' to be consistent with IAS 36. However, it noted that 'fair value' is used in many IFRSs. The Board concluded that it would be preferable to use the same phrase as SFAS 144 so that it is clear that convergence on this point had been achieved and to amend IAS 36 so that the terminology in IAS 36 is consistent with other IFRSs. Therefore, a consequential amendment made by IFRS 5 replaces 'net selling price' with 'fair value less costs to sell' throughout IAS 36.

Summary of changes from ED 4

BC84 The major changes from the proposals in ED 4 are:

(a) clarification that assets classified as non-current are not reclassified as current until they meet the criteria to be classified as held for sale (paragraph BC10).

(b) goodwill and financial assets under leases are included in the scope of the measurement provisions of the IFRS (paragraphs BC8–BC14).

(c) non-current assets carried at fair value with changes recognised in profit or loss are excluded from the measurement provisions of the IFRS (paragraphs BC8–BC14).

(d) assets that are revalued in accordance with IAS 16 or IAS 38 are, when classified as held for sale, treated consistently with assets that had not previously been revalued (paragraphs BC47 and BC48).

(e) the allocation of an impairment loss on a disposal group is consistent with the order of allocation of impairment losses in IAS 36 (paragraphs BC39–BC41).

(f) the criterion in IAS 35 that a discontinued operation should be a major line of business or area of geographical operations has been added (paragraphs BC67–BC71).

(g) discontinued operations can be presented on the face of the income statement as a single amount (paragraphs BC73–BC77).

Comparison with relevant aspects of SFAS 144

BC85 The following table sets out the extent of convergence with SFAS 144:

Requirement	**Extent of convergence with SFAS 144**
Scope	Some differences in scope arising from other differences between IFRSs and US GAAP.
Criteria for classification as held for sale	Fully converged.
Treatment of assets to be exchanged	Fully converged if FASB proposals on exchanges of non-monetary assets are finalised.
Treatment of assets to be abandoned	Fully converged.
Measurement on initial classification	Converged, other than cumulative exchange differences recognised directly in equity[15] that are included in the carrying amount of the asset (or disposal group) under US GAAP but are not under IFRS 5.
Subsequent measurement	Converged on the principles, but some differences arising from different requirements on reversals of previous impairments.
Changes to a plan to sell	Converged on reclassification and on measurement, except for differences arising from different requirements on reversals of previous impairments.
Presentation of assets classified as held for sale	Fully converged.
Definition of a discontinued operation	Not converged but the Board intends to work with the FASB to arrive at a converged definition within a relatively short time.
Timing of classification of an operation as discontinued	Fully converged.
Presentation of a discontinued operation	Converged except that SFAS 144 requires the presentation of pre- and post-tax profits on the face of the income statement and IFRS 5 requires the presentation of post-tax profit only (although disaggregation is permitted).

[15] As a consequence of the revision of IAS 1 *Presentation of Financial Statements* (as revised in 2007) such differences are recognised in other comprehensive income.

Dissenting opinions on IFRS 5

Dissent of Anthony T Cope and Harry K Schmid

DO1 Messrs Cope and Schmid dissent from the issue of IFRS 5.

Dissent of Anthony T Cope

DO2 Mr Cope dissents because, in his view, the IFRS fails to meet fully the needs of users in this important area.

DO3 In deciding to undertake this project, the Board had two objectives—to improve users' ability to assess the amount, timing and uncertainty of future cash flows, and to converge with US GAAP. The ability to identify assets (or asset groups) whose value will be recovered principally through sale rather than through operations has significant implications for future cash flows. Similarly, separate presentation of discontinued operations enables users to distinguish those parts of a business that will not contribute to future cash flows.

DO4 The importance of identifying and disaggregating these components was emphasised in the 1994 report of the Special Committee on Financial Reporting of the American Institute of Certified Public Accountants (the AICPA Jenkins Committee). The Jenkins Committee report, arguably the most extensive and authoritative survey of user needs ever undertaken, recommended that:

> [The definition of discontinued operations] should be broadened to include all significant discontinued operations whose assets and results of operations and activities can be distinguished physically and operationally and for business reporting purposes.

The sections of SFAS 144 dealing with discontinued operations were the direct response of the FASB to this recommendation.

DO5 Indeed, the Board appeared to agree in its initial deliberations. In ED 4, the Board stated:

> [The Board] further concluded that the definition of discontinued operations in SFAS 144 leads to more useful information being presented and disclosed for a wider range of operations than did the existing definition in IAS 35. That information is important to users in their assessment of the amount, timing and uncertainty of future cash flows.

Mr Cope continues to agree with that statement.

DO6 However, the Board ultimately has decided to retain the definition in IAS 35, thus failing to gain convergence on an important point in a project designed to achieve such convergence, and failing to respond to the stated needs of users.

DO7 The reason given for the Board's action is that implementation problems with SFAS 144 have emerged in the US. (Most of these problems seem to be with the guidance concerning the definition in SFAS 144, rather than the definition itself.) In paragraph BC71, the Board describes its action as an interim measure, and plans to work with the FASB to arrive promptly at a converged solution. In Mr Cope's view, it would have been much preferable to have converged first, and then dealt with any implementation problems jointly with the FASB.

Dissent of Harry K Schmid

DO8 The main reasons for Mr Schmid's dissent are:

(a) depreciation/amortisation of non-current assets that are still in active use should not cease only because of a management decision to sell the assets that has not yet been fully carried out; and

(b) measurement of assets should not be based on a management decision that has not yet been fully carried out, requiring a very rule-based Standard.

DO9 Mr Schmid believes that not depreciating/amortising assets classified as held for sale but still in active use is conceptually wrong and is especially problematic for discontinued operations because such operations represent a separate major line of business or geographical area of operations. Mr Schmid does not accept that measurement at the lower of carrying amount and fair value less costs to sell acts as a proxy for depreciation because, in most such cases, the fair value less costs to sell will be higher than the carrying amount as the fair value of such disposal groups will often reflect internally generated goodwill. Therefore, non-current assets in such disposal groups will simply remain at their carrying amounts even though they are still actively used, up to one year or even longer. In addition, the net profit shown separately in the income statement for discontinued operations will not be meaningful because depreciation/amortisation charges are not deducted for the continued use of the assets and this profit cannot be compared with the information restated in comparative periods where depreciation had been charged.

DO10 The proposed classification ‘held for sale’ and resulting measurement of non-current assets (or disposal groups) so classified is based on a management decision that has not yet been fully carried out and demands detailed (anti-abuse) rules to define the classification and to fix the time boundaries during which these assets can remain within the classification. The final result is, in Mr Schmid’s view, an excessively detailed and rule-based Standard.

DO11 Mr Schmid believes that a more simple and straightforward solution would have been possible by creating a special category of non-current assets retired from active use. The concept ‘retired from active use’ would have been simple to apply and management intentions would be removed from the Standard. The classification would equally apply to any form of disposal (sale, abandonment, exchange, spin-off etc); no detailed (anti-abuse) rules and no illustrations would be necessary and the Standard would be simple and based on a clear and unambiguous principle. Mr Schmid, on this point, does not agree with the conclusions in paragraph BC18 that a classification ‘retired from active use’ would not require fewer criteria to support it than the category ‘assets held for sale’.

DO12 Mr Schmid agrees with paragraph BC17 of the Basis for Conclusions, but in order to provide information of intended sales of non-current assets, especially discontinued operations, disclosure could have been required to take effect as soon as such assets are likely to be sold, even if they are still in active use.

DO13 Mr Schmid is fully in favour of seeking, whenever possible, convergence with US GAAP, but only if the converged solution is of high quality. He is of the opinion that this is not the case for this Standard for the reasons given.

CONTENTS

GUIDANCE ON IMPLEMENTING IFRS 5 *NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS*

Guidance on implementing IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

This guidance accompanies, but is not part of, IFRS 5.

Availability for immediate sale (paragraph 7)

To qualify for classification as held for sale, a non-current 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) (paragraph 7). A non-current asset (or disposal group) is available for immediate sale if an entity currently has the intention and ability to transfer the asset (or disposal group) to a buyer in its present condition. Examples 1–3 illustrate situations in which the criterion in paragraph 7 would or would not be met.

Example 1

An entity is committed to a plan to sell its headquarters building and has initiated actions to locate a buyer.

(a) The entity intends to transfer the building to a buyer after it vacates the building. The time necessary to vacate the building is usual and customary for sales of such assets. The criterion in paragraph 7 would be met at the plan commitment date.

(b) The entity will continue to use the building until construction of a new headquarters building is completed. The entity does not intend to transfer the existing building to a buyer until after construction of the new building is completed (and it vacates the existing building). The delay in the timing of the transfer of the existing building imposed by the entity (seller) demonstrates that the building is not available for immediate sale. The criterion in paragraph 7 would not be met until construction of the new building is completed, even if a firm purchase commitment for the future transfer of the existing building is obtained earlier.

Example 2

An entity is committed to a plan to sell a manufacturing facility and has initiated actions to locate a buyer. At the plan commitment date, there is a backlog of uncompleted customer orders.

(a) The entity intends to sell the manufacturing facility with its operations. Any uncompleted customer orders at the sale date will be transferred to the buyer. The transfer of uncompleted customer orders at the sale date will not affect the timing of the transfer of the facility. The criterion in paragraph 7 would be met at the plan commitment date.

(b) The entity intends to sell the manufacturing facility, but without its operations. The entity does not intend to transfer the facility to a buyer until after it ceases all operations of the facility and eliminates the backlog of uncompleted customer orders. The delay in the timing of the transfer of the facility imposed by the entity (seller) demonstrates that the facility is not available for immediate sale. The criterion in paragraph 7 would not be met until the operations of the facility cease, even if a firm purchase commitment for the future transfer of the facility were obtained earlier.

Example 3

An entity acquires through foreclosure a property comprising land and buildings that it intends to sell.

(a) The entity does not intend to transfer the property to a buyer until after it completes renovations to increase the property's sales value. The delay in the timing of the transfer of the property imposed by the entity (seller) demonstrates that the property is not available for immediate sale. The criterion in paragraph 7 would not be met until the renovations are completed.

(b) After the renovations are completed and the property is classified as held for sale but before a firm purchase commitment is obtained, the entity becomes aware of environmental damage requiring remediation. The entity still intends to sell the property. However, the entity does not have the ability to transfer the property to a buyer until after the remediation is completed. The delay in the timing of the transfer of the property imposed by others before a firm purchase commitment is obtained demonstrates that the property is not available for immediate sale. The criterion in paragraph 7 would not continue to be met. The property would be reclassified as held and used in accordance with paragraph 26.

Completion of sale expected within one year (paragraph 8)

Example 4

To qualify for classification as held for sale, the sale of a non-current asset (or disposal group) must be highly probable (paragraph 7), and transfer of the asset (or disposal group) must be expected to qualify for recognition as a completed sale within one year (paragraph 8). That criterion would not be met if, for example:

(a) an entity that is a commercial leasing and finance company is holding for sale or lease equipment that has recently ceased to be leased and the ultimate form of a future transaction (sale or lease) has not yet been determined.

(b) an entity is committed to a plan to 'sell' a property that is in use, and the transfer of the property will be accounted for as a sale and finance leaseback.

Exceptions to the criterion in paragraph 8

An exception to the one-year requirement in paragraph 8 applies in limited situations in which the period required to complete the sale of a non-current asset (or disposal group) will be (or has been) extended by events or circumstances beyond an entity's control and specified conditions are met (paragraphs 9 and B1). Examples 5–7 illustrate those situations.

Example 5

An entity in the power generating industry is committed to a plan to sell a disposal group that represents a significant portion of its regulated operations. The sale requires regulatory approval, which could extend the period required to complete the sale beyond one year. Actions necessary to obtain that approval cannot be initiated until after a buyer is known and a firm purchase commitment is obtained. However, a firm purchase commitment is highly probable within one year. In that situation, the conditions in paragraph B1(a) for an exception to the one-year requirement in paragraph 8 would be met.

Example 6

An entity is committed to a plan to sell a manufacturing facility in its present condition and classifies the facility as held for sale at that date. After a firm purchase commitment is obtained, the buyer's inspection of the property identifies environmental damage not previously known to exist. The entity is required by the buyer to make good the damage, which will extend the period required to complete the sale beyond one year. However, the entity has initiated actions to make good the damage, and satisfactory rectification of the damage is highly probable. In that situation, the conditions in paragraph B1(b) for an exception to the one-year requirement in paragraph 8 would be met.

Example 7

An entity is committed to a plan to sell a non-current asset and classifies the asset as held for sale at that date.

(a) During the initial one-year period, the market conditions that existed at the date the asset was classified initially as held for sale deteriorate and, as a result, the asset is not sold by the end of that period. During that period, the entity actively solicited but did not receive any reasonable offers to purchase the asset and, in response, reduced the price. The asset continues to be actively marketed at a price that is reasonable given the change in market conditions, and the criteria in paragraphs 7 and 8 are therefore met. In that situation, the conditions in paragraph B1(c) for an exception to the one-year requirement in paragraph 8 would be met. At the end of the initial one-year period, the asset would continue to be classified as held for sale.

(b) During the following one-year period, market conditions deteriorate further, and the asset is not sold by the end of that period. The entity believes that the market conditions will improve and has not further reduced the price of the asset. The asset continues to be held for sale, but at a price in excess of its current fair value. In that situation, the absence of a price reduction demonstrates that the asset is not available for immediate sale as required by paragraph 7. In addition, paragraph 8 also requires an asset to be marketed at a price that is reasonable in relation to its current fair value. Therefore, the conditions in paragraph B1(c) for an exception to the one-year requirement in paragraph 8 would not be met. The asset would be reclassified as held and used in accordance with paragraph 26.

Determining whether an asset has been abandoned

Paragraphs 13 and 14 of the IFRS specify requirements for when assets are to be treated as abandoned. Example 8 illustrates when an asset has not been abandoned.

Example 8

An entity ceases to use a manufacturing plant because demand for its product has declined. However, the plant is maintained in workable condition and it is expected that it will be brought back into use if demand picks up. The plant is not regarded as abandoned.

Presenting a discontinued operation that has been abandoned

Paragraph 13 of the IFRS prohibits assets that will be abandoned from being classified as held for sale. However, if the assets to be abandoned are a major line of business or geographical area of operations, they are reported in discontinued operations at the date at which they are abandoned. Example 9 illustrates this.

Example 9

In October 20X5 an entity decides to abandon all of its cotton mills, which constitute a major line of business. All work stops at the cotton mills during the year ended 31 December 20X6. In the financial statements for the year ended 31 December 20X5, results and cash flows of the cotton mills are treated as continuing operations. In the financial statements for the year ended 31 December 20X6, the results and cash flows of the cotton mills are treated as discontinued operations and the entity makes the disclosures required by paragraphs 33 and 34 of the IFRS.

Allocation of an impairment loss on a disposal group

Paragraph 23 of the IFRS requires an impairment loss (or any subsequent gain) recognised for a disposal group to reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of the IFRS, in the order of allocation set out in paragraphs 104 and 122 of IAS 36 (as revised in 2004). Example 10 illustrates the allocation of an impairment loss on a disposal group.

Example 10

An entity plans to dispose of a group of its assets (as an asset sale). The assets form a disposal group, and are measured as follows:

	Carrying amount at the reporting date before classification as held for sale	Carrying amount as remeasured immediately before classification as held for sale
	CU [a]	CU
Goodwill	1,500	1,500
Property, plant and equipment (carried at revalued amounts)	4,600	4,000
Property, plant and equipment (carried at cost)	5,700	5,700
Inventory	2,400	2,200
Investments in equity instruments	1,800	1,500
Total	**16,000**	**14,900**

(a) In this guidance, monetary amounts are denominated in 'currency units' (CU).

The entity recognises the loss of CU1,100 (CU16,000 – CU14,900) immediately before classifying the disposal group as held for sale.

The entity measures the fair value less costs to sell of the disposal group amounts to CU13,000. Because an entity measures a disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell, the entity recognises an impairment loss of CU1,900 (CU14,900 – CU13,000) when the group is initially classified as held for sale.

The impairment loss is allocated to non-current assets to which the measurement requirements of the IFRS are applicable. Therefore, no impairment loss is allocated to inventory and AFS financial assets. The loss is allocated to the other assets in the order of allocation set out in paragraphs 104 and 122 of IAS 36 (as revised in 2004).

The allocation can be illustrated as follows:

	Carrying amount as remeasured immediately before classification as held for sale	Allocated impairment loss	Carrying amount after allocation of impairment loss
	CU	CU	CU
Goodwill	1,500	(1,500)	0
Property, plant and equipment (carried at revalued amounts)	4,000	(165)	3,835
Property, plant and equipment (carried at cost)	5,700	(235)	5,465
Inventory	2,200	–	2,200
Investments in equity instruments	1,500	–	1,500
Total	**14,900**	**(1,900)**	**13,000**

First, the impairment loss reduces any amount of goodwill. Then, the residual loss is allocated to other assets pro rata based on the carrying amounts of those assets.

Presenting discontinued operations in the statement of comprehensive income

Paragraph 33 of the IFRS requires an entity to disclose a single amount in the statement of comprehensive income for discontinued operations with an analysis in the notes or in a section of the statement of comprehensive income separate from continuing operations. Example 11 illustrates how these requirements might be met.

Example 11

XYZ GROUP – STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20X2 (illustrating the classification of expenses by function)

(in thousands of currency units)	**20X2**	**20X1**
Continuing operations		
Revenue	X	X
Cost of sales	(X)	(X)
Gross profit	X	X
Other income	X	X
Distribution costs	(X)	(X)
Administrative expenses	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Share of profit of associates	X	X
Profit before tax	X	X
Income tax expense	(X)	(X)
Profit for the period from continuing operations	X	X
Discontinued operations		
Profit for the period from discontinued operations[a]	X	X
Profit for the period	X	X
Attributable to:		
Owners of the parent		
Profit for the period from continuing operations	X	X
Profit for the period from discontinued operations	X	X
Profit for the period attributable to owners of the parent	X	X
Non-controlling interests		
Profit for the period from continuing operations	X	X
Profit for the period from discontinued operations	X	X
Profit for the period attributable to owners of the parent	X	X
	X	X

(a) The required analysis would be given in the notes.

Presenting non-current assets or disposal groups classified as held for sale

Paragraph 38 of the IFRS requires an entity to present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are also presented separately from other liabilities in the statement of financial position. Those assets and liabilities are not offset and presented as a single amount. Example 12 illustrates these requirements.

Example 12

At the end of 20X5, an entity decides to dispose of part of its assets (and directly associated liabilities). The disposal, which meets the criteria in paragraphs 7 and 8 to be classified as held for sale, takes the form of two disposal groups, as follows:

	Carrying amount after classification as held for sale	
	Disposal group I:	Disposal group II:
	CU	CU
Property, plant and equipment	4,900	1,700
Investments in equity instruments	1,400[a]	–
Liabilities	(2,400)	(900)
Net carrying amount of disposal group	**3,900**	**800**

(a) An amount of CU400 relating to these assets has been recognised in other comprehensive income and accumulated in equity.

The presentation in the entity's statement of financial position of the disposal groups classified as held for sale can be shown as follows:

	20X5	20X4
ASSETS		
Non-current assets		
AAA	X	X
BBB	X	X
CCC	X	X
	X	X
Current assets		
DDD	X	X
EEE	X	X
	X	X
Non-current assets classified as held for sale	8,000	–
	X	X
Total assets	X	X
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
FFF	X	X
GGG	X	X
Amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale	400	–
	X	X
Non-controlling interests	X	X
Total equity	X	X
Non-current liabilities		
HHH	X	X
III	X	X
JJJ	X	X
	X	X
Current liabilities		
KKK	X	X
LLL	X	X
MMM	X	X
Liabilities directly associated with non-current assets classified as held for sale	3,300	–
	X	X
Total liabilities	X	X
Total equity and liabilities	X	X

The presentation requirements for assets (or disposal groups) classified as held for sale at the end of the reporting period do not apply retrospectively. The comparative statements of financial position for any previous periods are therefore not re-presented.

Measuring and presenting subsidiaries acquired with a view to resale and classified as held for sale

A subsidiary acquired with a view to sale is not exempt from consolidation in accordance with IFRS 10 *Consolidated Financial Statements*. However, if it meets the criteria in paragraph 11, it is presented as a disposal group classified as held for sale. Example 13 illustrates these requirements.

Example 13

Entity A acquires an entity H, which is a holding company with two subsidiaries, S1 and S2. S2 is acquired exclusively with a view to sale and meets the criteria to be classified as held for sale. In accordance with paragraph 32(c), S2 is also a discontinued operation.

The fair value less costs to sell of S2 is CU135. A accounts for S2 as follows:

- initially, A measures the identifiable liabilities of S2 at fair value, say at CU40
- initially, A measures the acquired assets as the fair value less costs to sell of S2 (CU135) plus the fair value of the identifiable liabilities (CU40), ie at CU175
- at the end of the reporting period, A remeasures the disposal group at the lower of its cost and fair value less costs to sell, say at CU130. The liabilities are remeasured in accordance with applicable IFRSs, say at CU35. The total assets are measured at CU130 + CU35, ie at CU165
- at the end of the reporting period, A presents the assets and liabilities separately from other assets and liabilities in its consolidated financial statements as illustrated in Example 12 *Presenting non-current assets or disposal groups classified as held for sale*, and
- in the statement of comprehensive income, A presents the total of the post-tax profit or loss of S2 and the post-tax gain or loss recognised on the subsequent remeasurement of S2, which equals the remeasurement of the disposal group from CU135 to CU130.

Further analysis of the assets and liabilities or of the change in value of the disposal group is not required.