

Meeting: International Public Sector Accounting Standards Board

Meeting Location: Virtual Meeting

Meeting Date: June 23–26, 2020

Agenda Item 11

For:

- Approval
 Discussion
 Information

ACCOUNTING FOR NON-CURRENT ASSETS HELD FOR SALE

Project summary	The objective of this project is to develop and IPSAS aligned with IFRS 5, <i>Non-current Assets Held for Sale and Discontinued Operations</i> .	
Meeting objectives	Topic	Agenda Item
Project management	Accounting for Non-current Assets Held for Sale: Project Roadmap	11.1.1
	Instructions up to Previous Meeting	11.1.2
	Decisions up to Previous Meeting	11.1.3
Decisions required at this meeting	When are Non-current Assets Classified as Held for Sale?	11.2.1
	Transfer of Public Sector Assets	11.2.2
	Connections between IPSAS 40, Public Sector Combinations and ED 77, <i>Accounting for Non-current Assets Held for Sale</i>	11.2.3
	Should Non-current Assets Held for Sale be Measured Only at Fair Value Less Costs to Sell?	11.2.4
	Use of Net Selling Price as an Alternative Measurement Basis	11.2.5
	Project Title	11.2.6
	Project Brief Approval	11.2.7
Other supporting items	Accounting for Non-current Assets Held for Sale – Project Brief and Outline	11.3.1

**ACCOUNTING FOR NON-CURRENT ASSETS HELD FOR SALE:
 PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
March 2020	1. Initial review of Accounting for Non-current Assets Held for Sale draft Project Brief and Outline
June 2020	1. Discuss Issues 2. Approval of Accounting for Non-current Assets Held for Sale Project Brief and Outline
September 2020	1. Approve Exposure Draft (ED)
October 2020	1. Issue ED
November 2020 – February 2021	1. Consultation Period (4 Months)
March 2021	1. Review of Comments
June 2021	1. Discuss Issues 2. Review [draft] IPSAS
September 2021	1. Approve IPSAS
October 2021	1. Issue IPSAS

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
March 2020	1. Liaise with the Measurement team/taskforce to consider the most appropriate measurement basis for non-current assets classified as held for sale.	1. Agenda Item 11.2.4 2. Agenda Item 11.2.5
	2. Develop a Board paper addressing the interactions with IPSAS 40, <i>Public Sector Combinations</i> and non-current assets that will be transferred to another public sector entity.	3. Agenda Item 11.2.2 4. Agenda Item 11.2.3
	3. Develop a Board Paper addressing the public sector factors determining the time between a non-current asset being surplus and it being classified as held for sale.	5. Agenda Item 11.2.1
	4. Discuss the project brief with the CAG in June 2020	6. CAG Agenda Item 4
	5. Present a revised Project Brief for Board approval at the June 2020 Meeting.	7. Agenda Item 11.2.7 8. Agenda Item 11.3.1
	6. Consider the project title options, bearing in mind the above specific public sector issues, including the suggested title “Assets Available for Disposal”.	9. Agenda Item 11.2.6
	7. Remove the flowchart on the development of guidance from the project brief.	10. Removed see—Agenda Item 11.3.1

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
N/A	1. (None – draft project brief and outline to be presented at this meeting for review.)	1. N/A

When are Non-current Assets Classified as Held for Sale?

Question

1. Whether the scope of IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, should be expanded in Exposure Draft (ED) 77, *Accounting for Non-current Assets Held for Sale* to include non-current assets that are surplus to an entity's operating requirements but do not yet meet the criteria to be classified as held for sale.

Recommendation

2. Staff and Board member sponsor recommend that the scope of IFRS 5 should be retained in ED 77.

Background

3. This paper will:
 - (a) Address the IPSASB instruction for staff to consider whether the scope of IFRS 5 should be expanded to include the intermediate period between the designation of an asset as surplus to the entity's operational requirements, and a decision as to whether that asset would be sold or transferred to another entity; and
 - (b) Explain the criteria that must be met for an asset to be classified as held for sale to evaluate when surplus assets should be accounted for in ED 77.

Analysis

Objective of IFRS 5

4. One of the objectives of IFRS 5 is to specify the accounting for assets held for sale. To meet this objective, IFRS 5 requires that:
 - (a) Certain criteria must be met before an asset can be classified as held for sale; and
 - (b) Assets that meet the criteria to be classified as held for sale are to be presented separately in the statement of financial position.

Scope

5. The scope of IFRS 5:
 - (a) Applies to the presentation and classification of all non-current assets and disposal groups¹ recognized by the entity; and
 - (b) Excludes the measurement requirements from some recognized non-current assets. These exclusions are listed at [Appendix A](#).

Criteria for classification of non-current assets as held for sale

6. A fundamental principle of IFRS 5 is that an entity shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use (IFRS 5 paragraph 6). To be classified as held for sale the following criteria must be met:

¹ From this point on, this paper will only refer to non-current assets rather than non-current assets and disposal groups.

- (a) The asset must be available for immediate sale in its present condition, and only be subject to terms that are customary for sales of such assets [e.g., closing of 30 days for housing sales in some jurisdictions]; and
 - (b) The sale must be highly probable. A sale is highly probable if all the following are met:
 - (i) The appropriate level of management must be committed to a plan to sell the asset;
 - (ii) An active program to find a buyer and complete the plan must be initiated;
 - (iii) The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value;
 - (iv) The sale must be completed within one year from the date of classification²; and
 - (v) It is unlikely that significant changes will be made to the plan.
7. Once a non-current asset meets the criteria to be classified as held for sale, it is reclassified as a current asset and presented as such in the statement of financial position.

Application of criteria to surplus assets

8. Staff considers that the key factors to consider when deciding if a surplus asset can be classified as held for sale are:
- (a) Will the carrying amount be recovered through a sales transaction; and
 - (b) Whether the criteria in paragraphs 6(a)-6(b) above are met: in particular, those stated at 6(a) – the asset must be ready for immediate sale, and 6(b)(i) – the appropriate level of management must be committed to a plan to sell the asset.
9. If an asset is surplus to an entity's operational requirements but a decision has not yet been made as to whether it should be sold or transferred to another entity, then the principles stated in paragraph 6 are not satisfied, because:
- (a) The asset is not available for immediate sale; and
 - (b) The appropriate level of management is not yet committed to a plan to sell that asset.
10. In addition, one of the requirements of IFRS 5 is that once an asset is classified as held for sale depreciation on that asset ceases. This is because the carrying amount will be recovered through sale rather than depreciation. As such, IFRS 5 specifically scopes out abandoned assets because the carrying amount of those assets will be recovered principally through continuing use (via depreciation) and not through sale.
11. Further, IFRS 5 paragraph BC23 comments that when developing IFRS 5, the IASB considered whether assets retired from active use should be within the scope. The IASB decided that "assets retired from active use that do not meet the criteria for classification as assets held for sale should

² Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset.

not be presented separately because the carrying amount of the asset may not be recovered principally through sale”.

12. IAS 16, *Property, Plant and Equipment* paragraph 55 also notes that depreciation of an asset ceases at the earlier of the date of the asset is classified as held for sale in accordance with IFRS 5 and the date that the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset has been fully depreciated³.
13. Therefore, until a decision is made to sell the asset and all the criteria stated in paragraph 6 are met, the asset will continue to be accounted for under its existing standard (e.g., IPSAS 17, *Property, Plant and Equipment*).

Public Sector Issues

14. In the public sector, decision-making and approval processes for the sale of a non-current asset can be lengthy. Regulations may have to be met, parliamentary approval may be needed, and lenders' approval may also be required. However, these types of considerations are not uniquely public sector issues, since private sector entities may also require various approvals, for example from shareholders, lenders, and regulators. Therefore, the asset sale process can take significant time in the public and private sector before an asset satisfies the criteria to be classified as held for sale. [Appendix B](#) provides an Illustrative Example of an asset that is delayed in being classified as held for sale and demonstrates the accounting at each stage of the process.
15. Some argue that assets surplus to operational requirements should be within the scope of ED 77 regardless of whether they meet the criteria to be classified as held for sale.
16. The *Process for Reviewing and Modifying IASB Documents* provides guidance on the approach to take when developing an IPSAS aligned with an IFRS. Step one of this process is identifying if there are any public sector issues that warrant departure. When making this decision, consideration needs to be given to the objective of financial reporting⁴, qualitative characteristics of information and whether the requirements from the IFRS would require undue cost or effort.
17. In regard to the objective of financial reporting, staff considers one of the key benefits of developing ED 77 is that assets that meet the criteria to be classified as held for sale are presented separately on the statement of financial position. This gives prominence to the fact that the asset will be sold and will no longer be available for the delivery of services.
18. However, if the scope of IFRS 5 were expanded to include assets that are being 'considered' for sale, staff is of the view that this will obscure the information as users would not be able to determine from the presentation alone which assets are held for sale and those for which a sale is only being considered. This will detract from the usefulness of information. Thus, the objective of financial reporting would be hindered by expanding the scope of IFRS 5.

³ Staff acknowledge that the carrying amount of an asset may also be reduced through impairment.

⁴ *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* states the objective of financial reporting is to provide information about the entity that is useful to users of GPFs for accountability and decision-making purposes.

19. Staff also considers that the qualitative characteristics of information will not be met, because if surplus assets were classified as held for sale, they would not faithfully represent the economic phenomenon that classification purports to represent. Further, the comparability of information between entities would be compromised.
20. Further, staff also considers that if surplus assets were presented as 'held for sale' without meeting the criteria set out in IFRS 5, it would leave the financial statements open for manipulation. Assets could be transferred between presentation as non-current and current, without meeting the strict criteria, thus enabling the manipulation of financial statements to suit the needs of the entity.

Conclusion

21. For these reasons staff and Board member sponsor consider that the scope of IFRS 5 is appropriate for use in the public sector and should not be expanded to include surplus assets where no decision as to the future of those assets has been made.

Decision Required

22. Does the IPSASB agree with the recommendation at paragraph 2?

Appendix A

Exclusions to IFRS 5 Measurement Requirements

- Deferred tax assets (IAS 12 *Income Taxes*) – (no equivalent IPSAS);
- Assets arising from employee benefits (IAS 19, *Employee Benefits*) – (IPSAS 39, *Employee Benefits*);
- Financial Assets within the scope of IFRS 9, *Financial Instruments* – (IPSAS 41, *Financial Instruments*);
- Non-current assets accounted for in accordance with the fair value model in IAS 40, *Investment Property* – (IPSAS 16, *Investment Property*);
- Non-current assets measured at fair value less costs to sell in accordance with IAS 41, *Agriculture* – (IPSAS 27, *Agriculture*);
- Groups of contracts within the scope of IFRS 17, *Insurance Contracts* – (no IPSAS equivalent).

Appendix B

Roehampton House and Queen Mary's Hospital

This illustrative example is intended to indicate which accounting standards would apply to Roehampton House during its time as an asset of the National Health Services.

History and Facts

Following is the information related to Roehampton House and the relocation and rebuilding of Queen Mary's Hospital.

Originally built in **1712**, Roehampton House is a Grade 1 listed building just south of London, United Kingdom.

From **1915-1983** Roehampton House was operated as Queen Mary's Hospital (QMH).

In **1957** the hospital took over the three-story villa on the site and converted it into a mental health center.

In **1961** the hospital joined the National Health Service (NHS).

In **1983** the NHS purchased Roehampton House and the surrounding 30 acres. However, due to asbestos and the dilapidated state of Roehampton House, it was evacuated.

In **1987** Roehampton House reopened.

In **1990** services had begun to be run down.

In **1997** accident and emergency was closed and acute services were transferred to Kingston Hospital.

In **1998** the South West London Community NHS Trust established its headquarters at the hospital.

In **2000** it was decided that the acute hospital was no longer needed, and the mental health center was demolished, and the site was cleared for the building of a community hospital.

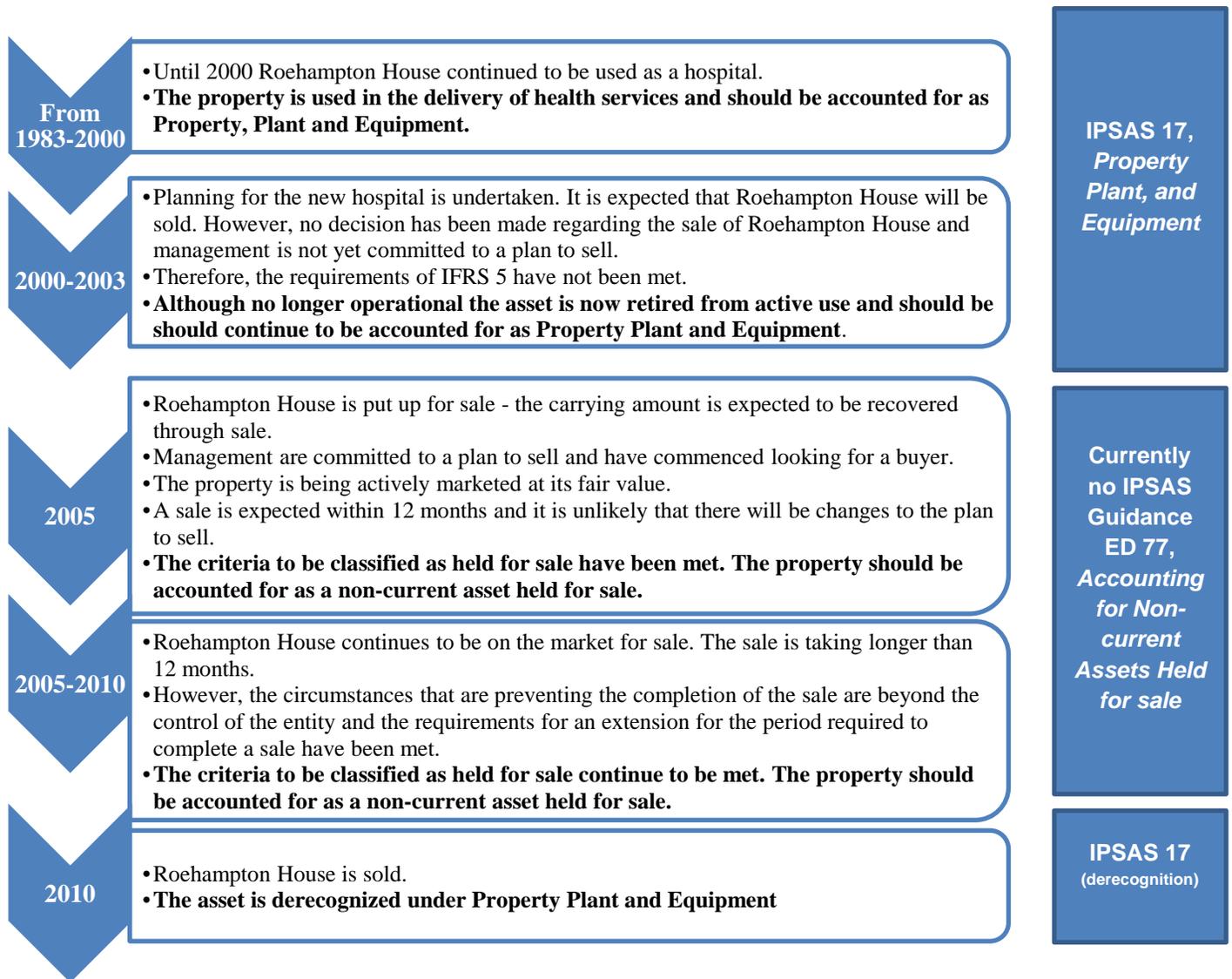
In **2003** construction commenced for the new hospital.

In **2005** Roehampton House (and 14 acres of land) was put up for sale.

In **2006** the new hospital was opened.

In **2010** Roehampton House was sold to a developer to be converted into 24 luxury apartments.

Application of Relevant Accounting (assuming IPSAS was applied)



Transfer of Public Sector Assets

Question

1. Whether the scope of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* should be expanded in Exposure Draft (ED) 77, *Accounting for Non-current Assets Held for Sale*, to include non-current assets transferred from one public sector entity to another public sector entity on a non-exchange basis.

Recommendation

2. Staff and Board member sponsor recommend that the scope of IFRS 5 be retained for ED 77.

Background

3. This paper addresses the IPSASB instruction at the March 2020 meeting to consider whether assets that are transferred from one public sector entity to another in a non-exchange transaction should be included in the scope of ED 77.

Analysis

4. IFRS 5, paragraph 10 states “Sales transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with IAS 16, *Property, Plant and Equipment*”. IPSAS 17, *Property, Plant and Equipment* paragraph 39⁵ provides guidance on commercial substance for the public sector and states:

An exchange transaction has commercial substance if:

- (a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or
 - (b) The entity-specific value of the portion of the entity’s operations affected by the transaction changes as a result of the exchange; and
 - (c) The difference in (a) or (b) is significant relative to the fair value of the assets exchanged.
5. Therefore, an exchange of public sector non-current assets is within the scope of IFRS 5 if the transaction has commercial substance.
 6. However, assets transferred to public sector entities on a non-exchange basis would not be in the current scope of IFRS 5. Some people contend that the scope of IFRS 5 should be modified in ED 77 to include non-exchange transactions. Following are the arguments for and against expanding the scope of IFRS 5 in ED 77.

Argument for including assets transferred on a non-exchange basis within scope

7. Supporters of the proposal consider that assets that are to be transferred in a non-exchange transaction should be treated in the same way as assets that will be transferred in an exchange transaction, because in both cases that entity is divesting itself of an asset.

⁵ Staff is aware the measurement project intends to relocate this paragraph to an IPSAS on Measurement.

8. It is also suggested that including non-exchange transactions within the scope would enhance the accountability and transparency of the entity. This is because IFRS 5 requires non-current assets classified as held for sale to be presented separately on the statement of financial position under 'Current Assets'. Therefore, this provides visibility about those assets an entity intends to dispose of.

Arguments against including assets transferred on a non-exchange basis within scope

9. A fundamental principle of IFRS 5 is stated in paragraph 6 as: "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". Therefore, for assets transferred in a non-exchange transaction, this principle would not be met. IFRS 5 is intended to apply to commercial transactions. This is evidenced further by the criteria for non-current assets classified as held for sale to be actively marketed at a price that is reasonable in relation to its fair value, as well as the need for there to be an active program to locate a buyer.
10. IFRS 5 provides information about non-current assets that an entity will sell. If an asset is transferred from one public sector entity to another, it remains within the same whole of government reporting entity. Therefore, upon consolidation, the transfer is eliminated and there is no change to the whole of government financial statements.
11. Finally, this project has a specific purpose to fill a gap in the IPSAS literature of how to account for non-current assets that are held for sale on a commercial basis. When an asset is transferred from one public sector entity to another in a non-exchange transaction, the transferring entity applies the derecognition requirements in IPSAS 17 and the receiving entity applies the recognition requirements in IPSAS 17. If the transfer were not considered to be a contribution from owners, ED 71, *Revenue without Performance Obligations* and ED 72, *Transfer Expenses* would also apply for the recognition of revenue and expense, respectively.

Conclusion

12. This project is intended to fill the gap for accounting for non-current assets held for sale on a commercial basis. Therefore, staff and Board member sponsor consider that the principle that assets are only classified as held for sale if recovery of the carrying amount is principally through a sale transaction should be adhered to.

Decision Required

13. Does the IPSASB agree with the recommendation at paragraph 2?

**Connections between IPSAS 40, *Public Sector Combinations* and ED 77,
*Accounting for Non-current Assets Held for Sale***

Question

1. Whether there are any connections with IPSAS 40, *Public Sector Combinations* that need consideration in Exposure Draft (ED) 77, *Accounting for Non-current Assets Held for Sale*.

Recommendation

2. Staff and Board member sponsor conclude that there are no connections with IPSAS 40 that will need consideration when developing ED 77. However, consideration will be given to developing application guidance on how to account for a transfer of assets from one public sector entity to another public sector entity that do not arise from a public sector combination.

Background

3. This paper responds to the IPSASB instruction to address the connections with IPSAS 40 *Public Sector Combinations* and ED 77 in the context of non-current assets that are transferred from one public sector entity to another, and in particular, whether there is an overlap between IPSAS 40 and ED 77.

Analysis

4. ED 77 will provide guidance on how to account for non-current assets held for sale when those assets are to be sold in a commercial transaction. Therefore ED 77 will provide accounting guidance only from the perspective of a seller/transferor. In contrast, IPSAS 40 provides guidance on how to account for a public sector combination but only from the perspective of a purchaser/transferee. Therefore, there is no overlap of accounting guidance.
5. A public sector combination is defined in IPSAS 40 as the bringing together of separate operations into one public sector entity. The bringing together of separate operations⁶ can result in either an amalgamation or an acquisition. Therefore, IPSAS 40 only applies to operations and not the acquisition of individual assets or liabilities.
6. Consequently, the purchase or transfer of individual assets would not be in scope of IPSAS 40, instead it would be accounted for under another IPSAS (e.g., IPSAS 17, *Property, Plant and Equipment*) by the purchaser/transferee.
7. ED 77 will apply to all non-current assets and to all disposal groups⁷. A disposal group in ED 77 may meet the definition of an operation in IPSAS 40, and, if purchased, could be accounted for under IPSAS 40 as an acquisition.

⁶ An operation is defined as: an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services.

⁷ A disposal group is defined 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. The group includes goodwill acquired in a business combination if the group is a cash-generating unit to which goodwill has been allocated in

8. Conversely, if a disposal group that met the definition of an operation in IPSAS 40, were transferred to another entity in an amalgamation, that disposal group would not be accounted for under ED 77 because it would not have been classified as held for sale because it was a non-exchange transaction.
9. While researching this paper, staff identified a potential gap in IPSAS 17 regarding how to account for a transfer of assets from one public sector entity to another. Staff will consider the need for consequential amendments to other IPSAS arising from ED 77, including IPSAS 17 and IPSAS 40.

Conclusion

10. Staff and Board member sponsor consider there will be no overlap between IPSAS 40 and ED 77. However, consideration will be given to developing application guidance in other IPSAS to address a transfer of assets from one public sector entity to another.

Decision Required

11. Does the IPSASB agree with the recommendation in paragraph 2?

accordance with the requirements of paragraphs 80-87 of IAS 36, *Impairment of Assets* or if it is an operation with such a cash-generating unit.

Should Non-current Assets Held for Sale be Measured Only at Fair Value Less Costs to Sell?

Question

1. Whether to retain the measurement requirements in IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations* in ED 77, *Accounting for Non-current Assets Held for Sale*, as the lower of carrying amount and fair value less costs to sell, or is there a public sector reason to amend this requirement to require fair value less costs to sell only.

Recommendation

2. Staff and Board member sponsor recommend retaining the IFRS 5 measurement requirements for ED 77.

Background

3. This paper will:
 - (a) Address the IPSASB instruction from the March 2020 meeting to liaise with the measurement team/taskforce to consider the appropriate measurement basis for non-current assets classified as held for sale; and
 - (b) Consider whether the measurement requirements in IFRS 5 should be retained in ED 77.

Analysis

4. IFRS 5 requires a non-current asset (or disposal group)⁸ be measured at the lower of carrying amount and fair value less costs to sell⁹ when classified as held for sale. This paper will discuss whether fair value less costs to sell should be the required measurement basis for assets that were previously accounted for using the cost model.
5. Immediately prior to classification as held for sale, IFRS 5 requires non-current assets to be measured in accordance with the appropriate standard. Therefore, for non-current assets accounted for using the cost model, the asset must be depreciated and impaired (if necessary) and the carrying amount adjusted prior to classification as held for sale.
6. For the purposes of IFRS 5, when assets are accounted for using the cost model, it will also be necessary to determine the fair value less costs to sell. If the fair value less costs to sell is lower than the revised carrying amount under the cost model, then the assets classified as held for sale will be presented in the statement of financial position at the fair value less costs to sell. However, if the fair value less costs to sell is higher than the revised carrying amount under the cost model, then that carrying amount under the cost model is what will be presented in the statement of financial position.
7. It has been suggested that when public sector assets are to be sold, using a carrying amount that is lower than the fair value less costs to sell is not appropriate as it may not represent the true value of

⁸ For brevity, from this point on, this paper will only refer to non-current assets rather than non-current assets (disposal group).

⁹ If an asset (or disposal group) is to be held for distribution to owners, the measurement requirement is lower of carrying amount and fair value less costs to distribute.

the asset to be sold, and that only fair value less costs to sell should be used when an asset is classified as held for sale.

8. Following are the arguments for and against measuring non-current assets at fair value less costs to sell when they are classified as held for sale.

Arguments for requiring measurement at fair value less costs to sell

Purpose of holding the asset

9. Supporters of this view contend that a non-current asset classified as held for sale should be measured at fair value less costs to sell because the asset is now held for its financial capacity. While the asset was being used, it was held for its operational capacity.
10. *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (The Framework)* paragraph 7.2 states that the objective of measurement is to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.
11. Paragraph 7.3 of *The Framework* further explains this statement commenting that selection of a measurement basis contributes to meeting the objectives of financial reporting [accountability and decision-making] in the public sector by providing information that enables users to assess:
 - (a) The cost of services provided in the period in historical or current terms;
 - (b) Operational capacity – the capacity of the entity to support the provision of services in future periods through physical and other resources; and
 - (c) Financial capacity – the capacity of an entity to fund its activities.
12. *The Framework* at paragraph 2.22 also states “the primary objective of governments and most public sector entities is to provide needed services to constituents”. Therefore, to fulfil this objective public sector entities hold assets for their operational capacity.
13. As part of the measurement project, Consultation Paper (CP), *Measurement* was issued in April 2019. This CP discussed which measurement basis was appropriate for operational capacity and which measurement basis was appropriate for financial capacity. This discussion concluded that the appropriate subsequent measurement basis for assets held for operational capacity was either historical cost or replacement cost, whereas for assets held for financial capacity fair value was the appropriate subsequent measurement basis.
14. IFRS 5 paragraph 6 states that an entity shall classify a non-current asset as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use. This is an indication that the capacity of the asset has changed from operational capacity to financial capacity. Therefore, as noted in paragraph 13, the appropriate measurement basis for an asset held for financial capacity is fair value.
15. Some may argue that assets classified as held for sale can still be operational. While this is correct, IFRS 5 paragraph BC23 concludes that the carrying amount of an asset will be recovered principally through the sale, and any remaining use of the asset is incidental to its recovery through sale. IFRS 5 paragraph BC29 comments further stating that the accounting for such assets [classified as held for sale] should therefore be a process of valuation rather than allocation.

Use of current value accounting

16. Supporters also contend that a public sector specific reason to depart from the measurement requirements in IFRS 5 is that some public sector entities account under the current value model because it aligns with the requirements of the *Government Finance Statistics Manual 2014* (GFS), which requires assets to be held at market value. The jurisdictions that adopt the current value model do so because the data then become useful for GFS purposes. Therefore, when classifying an asset as held for sale, it is more appropriate to use fair value less costs to sell as this reflects a current value approach to measurement.
17. Assets that are measured using a revaluation model as allowed by another standard prior to applying IFRS 5 (e.g., IAS 16, *Property, Plant and Equipment*) will always be measured at fair value less costs to sell when classified as held for sale. This is because, as paragraph 5 notes, assets must be measured in accordance with the appropriate standard immediately prior to classification as held for sale. As such, assets accounted for using a revaluation model will be measured at their fair value, which will become the revised carrying amount, and the costs to sell the asset will result in fair value less costs to sell being lower than the carrying amount.
18. Supporters argue that using the same measurement basis provides more consistent, relevant, and faithfully representative information, and therefore it is more useful to users. They argue that the carrying amount of an asset previously accounted for under a cost model may bear no resemblance to the fair value of that asset. Further, similar assets may be presented, when classified as held for sale, at considerably different values depending upon which model the asset was previously accounted under. They contend that, due to the prevalence of current cost accounting in the public sector, for consistency, all assets should be measured at fair value less costs to sell when classified as held for sale.

Accountability vs recoverability of carrying amount

19. The central principle of the measurement requirements of IFRS 5 is that a non-current asset held for sale is not presented at a value higher than its recoverable amount. This is indicated by paragraph 6 of IFRS 5 which states that an entity shall classify a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.
20. However, supporters of amending the measurement requirements in IFRS 5 for ED 77, argue that a public sector specific reason to depart from these requirements is that in the public sector, if an asset is held for sale then the public sector entity should be held accountable for whether it disposes of that asset at its fair value or a lower amount. In addition, they contend that it is more likely that the recoverable amount will be closer to the asset's fair value less costs to sell than to the carrying amount under the cost model.
21. Supporters contend that the reason to write up an asset that was accounted for under the cost model is that entity should be required to be held accountable against the asset's fair value less cost to sell rather than its carrying amount. If an asset sells for an amount below its fair value, the entity will have to account for the difference in value and that transparency makes it easier to hold the entity accountable.

Arguments against requiring measurement at fair value less costs to sell

Revenue Recognition Principles

22. Opponents to requiring fair value less costs to sell when a non-current asset is classified as held for sale, argue that to do so would contravene the principles of revenue recognition for assets. If this were the requirement, the current carrying amount of non-current assets that were measured using the cost model may require writing up to the fair value less costs to sell. Therefore, a gain would need recognition either as a revaluation surplus in net assets/equity or as revenue in the statement of financial performance.
23. Staff considers using a revaluation surplus is inappropriate because this type of account forms part of the revaluation model in IPSAS 17 *Property, Plant and Equipment*, and IPSAS 31, *Intangible Assets* and it is used to record increases of an entire class of assets, not a single asset or part of a class of asset.
24. However, recognizing an increase in value as revenue is not consistent with the general principles of revenue recognition for assets. Revenue is defined in IPSAS 1, *Presentation of Financial Statements* as, 'the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners. At the point of classifying an asset as held for sale there is no inflow of economic benefits to the entity.
25. One of the criteria for revenue recognition in IPSAS 9, *Revenue from Non-Exchange Transactions* is that the risks and rewards associated with the asset have transferred to the purchaser. At the point of classifying a non-current asset as held for sale, this has not occurred. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* requires an entity to have control of the inflowing resources and/or to have satisfied any conditions associated with that inflow before revenue can be recognized, neither of which has occurred when the asset is classified as held for sale.
26. Considering the proposals in the Exposure Drafts (EDs) from the revenue project, ED 70, *Revenue with Performance Obligations*, only allows revenue recognition when performance obligations, as set out in a binding arrangement, are fulfilled. Similarly, in ED 71, *Revenue without Performance Obligations*, if a transaction arising from a binding arrangement has present obligations, then revenue is recognized as those present obligations are fulfilled. If the transaction does not give rise to a present obligation, revenue is recognized when the entity has control of the resources received. At the point of classification as a non-current asset held for sale, there would not be a binding arrangement until a sale with a third party has been negotiated and agreed. Therefore, no performance obligation/present obligation would be present under the requirements of ED 70 and ED 71. In addition, the entity does not have control of the incoming resources and revenue should not be recognized.
27. Opponents to the proposal also contend that to recognize any write up as revenue may provide misleading financial statements because the revenue figure will be inflated for sales that have not yet occurred.

Maintaining IFRS alignment

28. This project is included in the IPSASB's *Strategy and Work Plan 2019-2023 (IPSASB Strategy)* as Theme B – *Maintaining Alignment with IFRS*. Three reasons were stated why it is important to maintain alignment with IFRS.

- (a) Common approach and language;
- (b) Mixed Group Consolidations¹⁰; and
- (c) Leveraging Resources.

Points (a) and (b) are particularly important in relation to the proposal to change the measurement requirements in IFRS 5.

29. Governments may use both IFRS and IPSAS, and therefore having a common language and approach is important. Further, some government business enterprises may use IFRS as they are profit-making, while IPSAS are used for non-profit making entities within the same government. Therefore, maintaining consistent measurement requirements for mixed groups reduces unnecessary differences and minimizes the cost of preparing consolidated financial statements.

Conclusion

30. Staff and Board member sponsor consider that there are persuasive arguments both for and against the proposal to require non-current assets that are classified as held for sale to be measured only at fair value less costs to sell. However, they consider that the arguments in favor of making this change from the IFRS 5 measurement requirements are not specific to the public sector. Many private sector entities use current value accounting as they consider it better reflects the value of the entity's assets. Similarly, private sector entities that do use the cost model are equally accountable to shareholders for the sale of assets and for reporting any losses made.

31. Therefore, on balance staff and Board member sponsor do not consider there are any public sector specific reasons to depart from the measurement requirements of IFRS 5 and are of the view that ED 77 should retain them.

Decision required

32. Does the IPSASB agree with the recommendation in paragraph 2?

¹⁰ Mixed group consolidations are when the public sector consolidates entities it controls which apply private sector accounting standards such as IFRS.

Use of Net Selling Price as an Alternative Measurement Basis

Question

1. Whether net selling price is required as an additional measurement basis for non-current assets (or disposal groups¹¹) classified as held for sale in Exposure Draft (ED) 77, *Accounting for Non-current Assets Held for Sale*.

Recommendation

2. Staff and Board member sponsor recommend retaining the IFRS 5 measurement requirements in ED 77.

Background

3. This paper will:
 - (a) Address the IPSASB instruction from the March 2020 meeting to liaise with the measurement team/taskforce to consider the appropriate measurement bases for non-current assets classified as held for sale; and
 - (b) Whether net selling price should be included as an additional measurement basis in ED 77.

Analysis

4. When an entity sells an asset, it generally aims to sell that asset for the highest price possible. However, in some circumstances, a public sector entity may choose to sell an asset for policy reasons, and may negotiate a price with a buyer, rather than sell the asset in an orderly market at the asset's fair value.
5. For example, an entity may have a policy objective to deliver certain services to the public. However, that entity may either not want to deliver those services itself or can see there will be cost savings if another party delivers those services. Therefore, the entity decides to sell non-current assets to another party at a negotiated price, and that party will use those assets to deliver the services. In these circumstances, it may be argued that, when those assets are classified as held for sale, it is more appropriate to measure them at the lower of carrying amount and net selling price, rather than the lower of carrying amount and fair value less costs to sell.

Arguments in support of including net selling price

6. *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (The Framework)* defines net selling price as "the amount that the entity can obtain from sale of the asset, after deducting the costs of sales". *The Framework* provides more detail on net selling price stating that it:
 - (a) Is observable in a market;
 - (b) Is an entity-specific price;
 - (c) Does not require an open, active, and orderly market;

¹¹ For brevity, from this point on, this paper will only refer to non-current assets rather than non-current assets (disposal group).

- (d) Does not require the estimation of a price in such a market;
 - (e) Includes the entity's cost of sale; and
 - (f) Reflects the internal¹² constraints on the sale of the asset.
7. In comparison, fair value¹³ is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".¹⁴ Fair value:
- (a) Is observable in a market;
 - (b) Is a non-entity-specific price;
 - (c) Requires an open, active, and orderly market;
 - (d) Requires the estimation of a price in such a market;
 - (e) Does not include the entity's cost of sale; and
 - (f) Does not reflect the internal constraints on the sale of the asset.
8. Therefore, for assets sold at a negotiated price, a measurement basis that reflects a limited market and the price an entity expects to receive from the sale of the asset, rather than the fair value of the asset, may provide better quality information. Supporters of including net selling price as an alternative measure argue that it provides a more relevant and faithfully representative measure for assets that are held for sale with the intention of undertaking a one to one negotiated sale.
9. To apply this proposal, the carrying amount of non-current assets that are to be sold at a negotiated price other than fair value is compared with the asset's net selling price – not with its fair value less costs to sell – and the asset held for sale is measured in the statement of financial position at the lower of the two amounts. Therefore, the principle of IFRS 5 that the carrying amount will be recoverable principally through sale is still met.

Arguments against including net selling price

- 10. Opponents of including net selling price in ED 77 argue that, for accountability purposes, if an entity sells an asset at below its fair value then the entity should recognize any loss and be accountable for it. However, assets measured at the lower of carrying amount and fair value less costs to sell can also be sold at less than its fair value and the loss is recognized.
- 11. Private sector entities may also sell assets at below fair value when assets do not align with the company's objectives. For example, an operation in the health industry that is a subsidiary of a tobacco company may be sold off quickly at below fair value because of misaligned objectives. In

¹² Internal constraints are limitations the seller puts on the asset, for example selling at a negotiated price.

¹³ 'Costs to sell' is an incremental cost directly attributable to the sale of the asset and is calculated separately from fair value, but is deducted from fair value to determine the fair value less costs to sell of an asset.

¹⁴ This definition from IFRS 13, *Fair Value Measurement*, will be incorporated into the IPSAS literature as part of the *Measurement* project.

such situations, any loss on the sale is recognized. Therefore, public sector entities should also be accountable for any losses made on the sale of public assets, as it is a cost associated with a decision to sell at a price other than fair value.

12. Opponents also argue that IFRS 5 is only intended to apply to transactions with commercial substance¹⁵. They suggest that this is evidenced by paragraph 10 of IFRS 5 which states “Sales transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with IAS 16, *Property, Plant and Equipment*”.
13. Further, the requirement for an asset to be marketed at a price in relation to its current fair value is also an indication that IFRS 5 is only intended to apply to commercial transactions. A sale of an asset at a price negotiated other than fair value is not a commercial transaction and therefore would be outside the scope of IFRS 5. As such there is no reason to include net selling price as an alternative measurement basis.

Impact of including net selling price

14. When classifying assets held for sale, entities would need to decide:
 - (a) The purpose for which the asset was being sold,
 - (b) Whether or not there was an orderly market, and
 - (c) Which of the lower of carrying amount and fair value less costs to sell or the lower of carrying amount and net selling price provided the most useful information to users.

It is questionable if adding this complexity is worthwhile and whether it provides additional useful information to users to the current IFRS 5 requirements.

15. If net selling price were included in ED 77, the criteria to assess when non-current assets can be classified as held for sale would need to be reconsidered. For example, the criterion for an asset to be actively marketed for sale at a price that is reasonable in relation to its current fair value would need to be amended.

Conclusion

16. Staff and Board member sponsor consider that introducing another measurement basis would introduce unnecessary complexity. Entities should be accountable for any losses on sales of assets, and IFRS 5 has strict criteria that must be met for an asset to be classified as held for sale. Therefore, the application of the standard is quite narrow and should only apply to commercial transactions.
17. For these reasons staff and Board member sponsor consider that net selling price should not be included in the measurement requirements and guidance in ED 77.

Decision Required

18. Does the IPSASB agree with the recommendation at paragraph 2?

¹⁵ Commercial substance is explained at [paragraph 4 of Agenda Item 11.2.2](#)

Project Title

Question

1. Whether the title of this project should be *Accounting for Non-current Assets Held for Sale*.

Recommendation

2. Staff and Board member sponsor recommend that the title for this project should be *Accounting for Non-current Assets Held for Sale*.

Background

3. This paper will address the IPSASB instruction from the March 2020 meeting to consider the title for the project.

Analysis

4. At the March 2020 meeting the IPSASB had a brief discussion about the title of this project. One suggested title was "Assets Available for Disposal".
5. During the development of these papers staff considered that a key element of IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* was that it had a narrow scope and only applied to assets that were to be sold in a commercial transaction. Therefore, staff thought that the use of the word 'disposal' did not portray this limited scope because assets can be disposed of in ways other than through sale.
6. Staff also noted that the general convention with other IPSAS aligned with an IFRS is to use the same title unless there is a public sector reason to depart. Noting that 'discontinued operations' occurred more frequently in the private sector than the public sector it was decided that this could be removed from the title for this project.

Conclusion

7. Accordingly, staff and Board member sponsor consider that 'Accounting for Non-current Assets Held for Sale' portrays the strict scope of the project, while still maintaining the connection with IFRS 5.

Decision Required

8. Does the IPSASB agree with the recommendation at paragraph 2?

Project Brief Approval

Question

1. Does the IPSASB approve the Project Brief for ED 77, *Accounting for Non-current Assets Held for Sale*?

Recommendation

2. Staff and Board member sponsor recommend the IPSASB approve the Project Brief, *Accounting for Non-current Assets Held for Sale*.

Background

3. This paper will:
 - (a) Address the instruction from the March 2020 meeting to present a revised Project Brief at the June 2020 meeting for approval; and
 - (b) List the changes made to the Project Brief following the March 2020 meeting.

Analysis

4. The IPSASB raised several issues in March 2020 for staff consideration, as follows:
 - (a) Whether surplus public sector assets should be within the scope of this project (see [Agenda Item 11.2.1](#));
 - (b) Whether transfers of assets from one public sector entity to another should be within scope of this project (see [Agenda Item 11.2.2](#));
 - (c) To consider any connections with IPSAS 40, *Public Sector Combinations* (see [Agenda Item 11.2.3](#));
 - (d) The most appropriate measurement basis for non-current assets held for sale, instructing staff to liaise with the Measurement project team (see [Agenda Item 11.2.4](#) and [Agenda Item 11.2.5](#)); and
 - (e) The title for the project (see [Agenda Item 11.2.6](#)).
5. The Project Brief has been amended to address these issues – see [Agenda Item 11.3.1](#).

Decision Required

6. Does the IPSASB agree with the recommendation at paragraph 2?

ACCOUNTING FOR NON-CURRENT ASSETS HELD FOR SALE

PROJECT BRIEF AND OUTLINE

1. Introduction

- 1.1 IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* was issued by the IASB in March 2004 and its objective is to specify the accounting for non-current assets held for sale, and the presentation and disclosure of discontinued operations.
- 1.2 Presently there is no IPSAS equivalent to IFRS 5 and thus no guidance within IPSAS on how to account for non-current assets that are to be sold. However, IPSAS 1, *Presentation of Financial Statements* does require information relating to discontinued operations to be disclosed in the Statement of Financial Performance.
- 1.3 IFRS 5 is referred to in many IFRS Standards that have an equivalent, aligned IPSAS. These include:
 - (a) IPSAS 1, *Presentation of Financial Statements*;
 - (b) IPSAS 13, *Leases*¹⁶;
 - (c) IPSAS 14, *Events after the Reporting Date*;
 - (d) IPSAS 16, *Investment Property*;
 - (e) IPSAS 17, *Property, Plant and Equipment*;
 - (f) IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;
 - (g) IPSAS 21, *Impairment of Non-Cash-Generating Assets*;
 - (h) IPSAS 26, *Impairment of Cash-Generating Assets*;
 - (i) IPSAS 27, *Agriculture*;
 - (j) IPSAS 31, *Intangible Assets*; and
 - (k) IPSAS 38, *Disclosure of Interests in Other Entities*.
- 1.4 Because IFRS 5 is referred to in many IFRS, the issue of developing an aligned IPSAS has been raised in several projects, including:
 - (a) IPSAS 38, *Disclosure of Interests in Other Entities*;
 - (b) IPSAS 40, *Public Sector Combinations*; and
 - (c) The current Measurement project.

¹⁶ IPSAS 13 is based on IAS 17, *Leases* which has since been superseded by IFRS 16, *Leases*.

2. Rationale for Project

- 2.1 Theme B of the IPSASB's *Strategy and Work Plan 2019-2023* (Strategy) is 'Maintaining alignment with IFRS'. The IPSASB considers maintaining alignment with IFRS important because it:
- (a) Provides a common approach and language for accounting;
 - (b) Allow easier mixed group consolidations¹⁷; and
 - (c) Allows the IPSASB to leverage private sector best practice.
- 2.2 The Strategy also cites an alignment with IFRS 5 as a minor project to be considered when resources become available, aimed at reducing any unnecessary differences between IPSAS and IFRS. Further, during the project to develop IPSAS 40, *Public Sector Combinations* the IPSASB highlighted a need to evaluate the applicability of IFRS 5 for the public sector and that the IPSASB should consider a future alignment project.

3. Financial Reporting Requirements

- 3.1 Public sector entities dispose of assets that are no longer required in a variety of ways, including sales in the commercial sector. Constituents have commented that, since IPSAS does not have an equivalent to IFRS 5, there is a gap in the literature on how to account for assets held for sale which should be filled with an IPSAS aligned with IFRS 5.

4. Project Objective

- 4.1 The project objective is to develop an Exposure Draft (ED) that proposes an aligned IPSAS with IFRS 5.
- 4.2 The IPSASB considered whether the development of a Consultation Paper (CP) was necessary. A CP is not deemed necessary because developing an IPSAS aligned with IFRS 5 is not considered complex as there is only one widely adopted standard for accounting for non-current assets held for sale and discontinued operations.

Achieving the Objective

- 4.3 To achieve the objective, it will be necessary to develop a [draft] IPSAS aligned with IFRS 5, including any appropriate consequential amendments to other IPSAS.
- 4.4 The IPSAS document *Process for Reviewing and Modifying IASB Documents* will be followed during this project.

¹⁷ Mixed group consolidations are when the public sector consolidates entities it controls which apply private sector accounting standards such as IFRS.

5. Outline of the Project

Project Scope

- 5.1 The scope of this project is to introduce the requirements for accounting for non-current assets held for sale and discontinued operations from IFRS 5 into IPSAS.

Key Issues

- 5.2 The key issues are listed below.

Key Issue #1 – Scope

- 5.3 Some constituents have noted that, in the public sector, there may be a lengthy intermediate period between a non-current asset becoming surplus to its operations and a decision to either sell that asset or transfer it to another public sector entity. Surplus non-current, non-financial assets are not within the scope of IFRS 5, and this project will consider whether there are public sector specific reasons to expand the scope when developing an aligned IPSAS to accommodate this circumstance.
- 5.4 IFRS 5 only applies to transactions of a commercial nature. This project will consider whether there are public sector specific reasons to expand the scope of an aligned IPSAS to include transfers of public sector assets in a non-exchange transaction. The project will also consider any potential linkages with other IPSAS, including IPSAS 17, *Property, Plant, and Equipment* and IPSAS 40, *Public Sector Combinations*.

Key Issue #2 – Measurement

- 5.5 IFRS 5 requires that non-current assets held for sale are to be measured at the lower of carrying amount and fair value less costs to sell. This project will consider whether the measurement requirements in IFRS 5 are appropriate for non-current assets held for sale in the public sector.
- 5.6 Some constituents consider that all non-current assets should be measured at fair value less costs to sell when classified as held for sale. This project will consider whether there are any public sector specific reasons to depart from the measurement requirements of IFRS 5.
- 5.7 Public sector assets may be sold at a negotiated price other than fair value for policy reasons. Therefore, some constituents consider that, when classified as held for sale, these assets should be measured at lower of carrying amount and net selling price as this better represents the amount the entity expects to recover in the sale. This project will consider whether, in these circumstances, non-current assets classified as held for sale should be measured at lower of carrying amount and net selling price.

Key Issue #3 – Presentation and Disclosure

- 5.8 Both IFRS 5 and IPSAS 1 have requirements for presentation and disclosure of discontinued operations. These requirements will be assessed to determine if they are aligned; proposals for amendments will be made if necessary.

6. Describe the Implications for any Specific Persons or Groups

Relationship to the IASB

6.1 This IFRS alignment project has no known or projected links with any current IASB project.

Relationship to Other Standards, Projects in Process or Planned Projects

6.2 As noted in paragraphs 1.4 and 2.2, work on other projects has highlighted the lack of accounting guidance for non-current assets held for sale. As noted in paragraph 1.3, there are many IFRS that refer to IFRS 5. All IPSAS aligned with those IFRS will need to be reviewed for consequential amendments to insert references to an IPSAS aligned with IFRS 5.

6.3 Measurement issues (see Key Issue #2) will be discussed with the Measurement project team to ensure consistency of guidance.

Other – Government Finance Statistics (GFS)

6.4 The IPSASB supports the reduction of unnecessary differences between GFS and IPSAS in the development of new IPSAS and revisions to existing IPSAS. The IPSASB's policy paper *Process for Considering GFS Reporting Guidelines during Development of IPSASs (2014)* guides the process.

6.5 This project will assess if any differences arise between GFS and IPSAS.

7. Development Process, Project Timetable, and Project Output

7.1 The development of any output will be subject to the IPSASB's formal due process, with input from the Consultative Advisor Group (CAG). The approval of an ED will be subject to the usual IPSASB voting rules. As the project progresses, regular assessments will be made to confirm that the project timetable remains the most appropriate.

Project Timetable

7.2 The table below outlines the proposed project timetable.

Project Milestones	Expected Completion
<ul style="list-style-type: none"> • Discuss Issues • Approve Project Brief and Outline 	June 2020
<ul style="list-style-type: none"> • Review and Approve Exposure Draft 	September 2020
<ul style="list-style-type: none"> • Issue ED 	October 2020
<ul style="list-style-type: none"> • November 2020 – February 2021 	Consultation period (4 months)
<ul style="list-style-type: none"> • Review of Comments 	March 2021
<ul style="list-style-type: none"> • Discuss Issues • Review [draft] IPSAS 	June 2021
<ul style="list-style-type: none"> • Approve IPSAS 	September 2021

• Issue IPSAS	October 2021
---------------	--------------

Project Output

- 7.3 The initial output is expected to be an exposure draft (ED) with recommendations that this gives rise to an IPSAS.

8. Resources Required

Task Force

- 8.1 It is anticipated that a Board sponsor will oversee the project, and a task force will not be required.

Staff

- 8.2 It is envisaged that 0.3 FTE Full Time Equivalent (FTE) staff member will be required to resource the project.

Factors that Might Add to Complexity and Length

- 8.3 Factors that could add to the complexity and length of the project are the need to align with other projects (Measurement and the project to update IPSAS 17).

9. Useful Sources of Information

- 9.1 The principal sources of information will be IFRS 5 and literature from other standard-setters. These include but are not limited to:
- (a) AASB 5, *Non-current Assets Held for Sale and Discontinued Operations* - Australia;
 - (b) PBE IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations* – New Zealand;
 - (c) GRAP 100, *Discontinued Operations* – South Africa; and
 - (d) The Government Financial Reporting Manual 2019-20 – United Kingdom.