IPSASB International Public Sector Accounting Standards Board®

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Meeting: IPSASB Consultative Advisory Group

Meeting Location: Virtual Meeting

Meeting Date: June 22, 2020

Agenda Item 4

ACCOUNTING FOR NON-CURRENT ASSETS HELD FOR SALE

Project summary	The objective of this project is to develop and IPSAS aligned with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations.*	
Meeting objectives	***Topic***	***Agenda Item***
Discussion items	Accounting for Non-current Assets Held for Sale	4.1
	Project Brief and Outline - Accounting for Non-current Assets Held for Sale	4.2
Other supporting items	Appendix A: IPSASB Due Process Checklist	Appendix A

Accounting for Non-current Assets Held for Sale

Objective of this Project

1. The objective of this project is to develop an IPSAS aligned with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. IFRS 5 specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations.

2. The *IPSASB's Strategy and Work Plan 2019-2023* identified this as a Theme B project – "Maintaining Alignment with IFRS" project which would be undertaken when staff resources permitted. There is currently a gap in the IPSAS suite of standards. The Project Brief and Outline at Agenda Item 4.2 provides more detail to the background for this project.

3. One of the key features of IFRS 5 is that it requires separate presentation of non-current assets classified as held for sale. This is valuable information for users of public sector financial statements as it allows easy identification of the assets a government entity is intending to dispose of. Without such information governments could sell public sector assets less transparently. Further, providing this information in the financial statements may lead to better asset management practices as it will indicate which assets are no longer required for operational purposes, which may lead to discussion as to why they were acquired in the first place.

Approach to this Project

4. At its March 2020 meeting, the IPSASB agreed projects with cross-cutting issues should be managed on a holistic basis to ensure the broad needs of constituents are considered. The Accounting for Non-current Assets Held for Sale project was identified as one of these projects.

   (a) IFRS 5 requires non-current assets that meet the criteria to be classified as held for sale to be measured at the lower of:

      (i) Carrying amount; and

      (ii) Fair value less costs to sell.

      Therefore, it has links to the current IPSASB project on Measurement.

   (b) IFRS 5 also requires that when assets are classified as held for sale the depreciation for those assets' ceases. As such this project also has links to the update project on IPSAS 17, *Property, Plant and Equipment*.

5. Due to the links to the Measurement Project and the proposed revisions to IPSAS 17, a coordinated approach is being undertaken, which requires ongoing communication between the project teams. The benefits of managing inter-related projects holistically is:

   (a) Issues are much clearer and transparent for constituents;

   (b) Stakeholders are provided with a complete view of the projects; and

   (c) The duplication of work is reduced for stakeholders and the IPSASB as decisions on cross-cutting issues are made once and are actioned across all related projects.

   It is intended that four exposure drafts (ED) addressing each aspect of this coordinated approach will be issued as a package for constituents to consider. These EDs are:

(a) ED 74, *Conceptual Framework-Limited Scope Update*. To propose changes to the Conceptual Framework related to measurement;

(b) ED 75, *Measurement*. To propose the principles to be included in the future Measurement standard;

(c) ED 76, *IPSAS 17 Update*. To include the proposed changes to IPSAS 17, *Property, Plant, and Equipment* arising from Measurement, Heritage Assets, and Infrastructure Assets projects; and

(d) ED 77, *Accounting for Non-Current Assets Held for Sale*. To fill a gap in existing IPSAS by aligning with guidance in IFRS 5.

6. The following diagram illustrates the interaction between these four EDs.

Question to CAG Members

Do CAG members agree that constituents will benefit from this coordinated approach to developing guidance for Accounting for Non-Current Assets Held for Sale?

Public Sector Issues

7. Staff have considered several issues that will be brought to the IPSASB at the June 2020 meeting. Following is a brief discussion of these issues. From this CAG meeting staff are seeking input as to whether there are any public sector reasons to depart from the requirements in IFRS 5.

Scope of IFRS 5

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

8. At the March 2020 IPSASB meeting staff were asked to consider if the scope of IFRS 5 should be expanded to include surplus assets[1] where a decision to either sell or transfer the asset had not yet been made. A key principle of IFRS 5 is that an entity shall classify a non-current asset (or disposal group[2]) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Staff noted that IFRS 5 has strict criteria which must be met for an asset to be classified as held for sale. These criteria are:

    (a) The asset must be available for immediate use in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

    (b) For a sale to be highly probable:

        (i) The appropriate level of management must be committed to a plan to sell the asset;

        (ii) An active program to locate a buyer and complete the plan must have been 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 should be expected to be completed within 12 months (but there is an exclusion to this); and

        (v) It is unlikely that any significant changes to the plan will be made.

9. Assets that do not meet these criteria will continue to be accounted for under the relevant accounting standard (e.g., IPSAS 17, *Property, Plant and Equipment*).

10. Surplus assets are not specific to the public sector and if no decision has been made to sell the asset the criteria in paragraph 8 have not been met. Furthermore, when developing IFRS 5, the IASB 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 (IFRS 5, paragraph BC23).

11. Therefore, staff and Board member sponsor[3] concluded there is no public sector reason to depart from the IFRS 5 requirements and recommended the scope of IFRS 5 be retained.

Transfer of Public Sector Assets

12. Staff were also asked to consider if assets that are intended to be transferred from one public sector entity to another public sector entity should be included in the scope of ED 77.

13. IFRS 5, paragraph 10, states that sale transactions [within the scope of IFRS 5] 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 includes the same guidance as IAS 16 on commercial substance.

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[1] Surplus assets are not a defined term but refers to assets that are no longer necessary for an entity's operational requirements.

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

[3] The IPSASB agreed that a taskforce was not required but that a Board member should oversee the project.

14. However, as noted in paragraph 8 above, a key principle of IFRS 5 is that non-current assets are classified as held for sale if the carrying amount of that asset will be recovered principally through sale rather than through continuing use. Assets transferred from one public sector entity to another public sector entity are done so in a non-exchange transaction and the carrying amount of the non-current asset will not be recovered principally through sale.

15. Further it is unlikely that the requirement for the asset to be actively marketed at a price that is reasonable to its fair value, will be met (see paragraph 8(b)(iii) above). Therefore, assets in such a transfer, are likely to fail to meet the criteria to be classified as held for sale.

16. IFRS 5 is intended to provide information about assets that will be sold; therefore, they are presented separately in the statement of financial position. However, transfers between entities within the same whole of government reporting entity will be eliminated on consolidation. Therefore, there is no impact on the whole of government financial statements.

17. 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.

18. It may be argued that including non-current assets transferred from one public sector entity to another public sector entity in the scope of ED 77 may provide more transparent information as they are presented separately on the statement of financial position of the individual entity transferring the assets (this is not an issue in the consolidated statements of both entities).

19. Staff and Board member sponsor concluded that the key principle that the carrying amount of non-current assets classified as held for sale is recovered through sale should be adhered to and recommended that scope of IFRS 5 be maintained for ED 77.

Measurement

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

20. IFRS 5 requires assets classified as held for sale to be measured at the lower of:

    (a) Carrying amount; and

    (b) Fair value less costs to sell.

21. Immediately prior to classification as held for sale IFRS 5 also requires non-current assets to be measured in accordance with the appropriate standard. Therefore, for assets held on a cost model, adjustments will be made for depreciation and impairment (if necessary) to arrive at a new carrying amount. Assets held on a revaluation model will be measured at fair value and the carrying amount will be adjusted to this new fair value. Therefore, for assets held on a revaluation model, when classified as held for sale they will be measured at fair value less costs to sell as this will be lower than the carrying amount[4]. However, for assets held on a cost model, depending on the carrying

[4] When on a revaluation model the carrying amount will equal the fair value of the asset and the costs to sell will then lower that amount.

amount when classified as held for sale, they may be measured at either the carrying amount or fair value less costs to sell.

22. An issue was raised as to whether public sector assets should only be measured at fair value less costs to sell (thus amending IFRS 5 requirements for ED 77). The reasons given are as follows:

    (a) Assets classified as held for sale are held for their financial capacity, rather than their operational capacity, therefore a fair value measurement is a more appropriate measurement base to use;

    (b) Some public sector assets are held on a revaluation model to align with Government Financial Statistics, therefore, to ensure consistency the measurement requirement should be amended; and

    (c) Fair value less cost to sell provides better information to users about the value of the asset being sold and the amount of resources expected to flow to the entity.

23. However, arguments against requiring fair value less costs to sell are as follows:

    (a) Assets held on a cost model may have to be written up to a fair value less cost to sell and this gain would be accounted for as either a revaluation surplus in net assets/equity or as revenue in the statement of financial performance.

        (i) Net Assets/Equity - Staff considers using a revaluation surplus is inappropriate because this type of account forms part of the revaluation model in IPSAS 17, 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.

        (ii) Revenue - Such a gain may be contrary to the principle of revenue recognition because:

            a. It does not meet the definition of revenue[5];

            b. No risk or reward has been transferred (IPSAS 9, *Revenue from exchange transactions);*

            c. The entity does not have control of the inflowing resources (IPSAS 23, *Revenue from Non-exchange Transactions (Taxes and Transfers))*;

            d. No performance obligations have been fulfilled (ED 70, *Revenue with Performance Obligations*); and

            e. No present obligation has been fulfilled and/or the entity does not have control of the inflowing resources (ED 71, *Revenue without Performance Obligations*).

    (b) The purpose of this project was to develop an IPSAS aligned with IFRS 5, changing the measurement requirements would create a divergence without a compelling public sector reason to do so.

24. Staff and Board member sponsor were of the view that the arguments in favor of amending the measurement requirements for use in ED 77 were not specific to the public sector. Therefore, as this is intended to be an alignment project there was no public sector reason to depart from the IFRS

5 IPSAS 1, *Presentation of Financial Statements* defines revenue 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"

identified, Accordingly, staff and Board member sponsor recommended retaining the IFRS 5 measurement requirements in ED 77.

Use of Net Selling Price as an Alternative Measurement Basis

25. When an entity sells an asset, they generally aim to achieve the highest price possible. However, some public sector assets may be sold at a negotiated price with a buyer for policy reasons[6]. In these circumstances some argue that when those assets are classified as held for sale they should be measured at the lower of carrying amount and net selling price rather than the lower of carrying amount and fair value less costs to sell.

26. Net selling price is defined in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (*The Framework*) as the amount that the entity can obtain from sale of the asset, after deducting the costs of sales". Net selling price:

    (a) Is observable in a market;

    (b) Is an entity-specific price;

    (c) Does not require an open, active, and orderly market;

    (d) Does not require the estimation of a price in such a [active and orderly] market;

    (e) Includes the entity's cost of sale; and

    (f) Reflects the internal constraints[7] on sale.

27. In contrast, fair value 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". Fair value is:

    (a) Observable in a market;

    (b) 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 internal constraints on the sale of the asset.

28. It is argued that net selling price is more appropriate because it reflects the limited market and the price the entity expects to receive from the sale of the asset, and this may provide better information for users. It is further argued that net selling price provides a more relevant and faithfully representative measure of the asset that is held for sale.

29. Opponents to using net selling price argue that if an entity sells an asset at a price below its fair value then that entity should record any loss. Public sector entities should 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

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6 An entity may have a policy objective to deliver certain services but may either not want to deliver those services itself or can see cost savings if another party delivers those services. Therefore, the entity may sell assets to that party, to deliver those services, in a negotiated sale,

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

than fair value. They further argue that in the private sector, assets may be sold at below fair value and those entities recognize and take responsibility for any loss, this should be the same for the public sector.

30. Staff and Board member sponsor concluded there is no public sector specific reason to amend the measurement requirements of IFRS 5 and recommend that they be retained for use in ED 77.

Question to CAG Members

Do CAG members agree with the staff analysis? Are there any public sector issues to depart from the requirements in IFRS 5?

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*[8];

(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.

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;

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

(b) Allow easier mixed group consolidations[9]; 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

4.1 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.

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.

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

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 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
• Discuss Issues • Approve Project Brief and Outline	June 2020
• Review and Approve Exposure Draft	September 2020
• Issue ED	October 2020
• November 2020 – February 2021	Consultation period (4 months)
• Review of Comments	March 2021
• Discuss Issues • Review [draft] IPSAS	June 2021
• 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.

Appendix A: IPSASB Due Process Checklist

Project: Accounting for Non-current Assets Held for Sale

#	Due Process Requirement	Yes/No	Comments
A. Project Brief			
A1.	A proposal for the project (project brief) has been prepared, that highlights key issues the project seeks to address.	Yes	The IPSAS initially reviewed the project brief at its March 2020 meeting and it is scheduled for approval at the June 2020 meeting.
A2.	The IPSASB has approved the project in a public meeting.	Yes	The IPSASB agreed the meeting should proceed at the March 2020 meeting. The minutes of that meeting have not yet been approved.
A3.	The IPSASB CAG has been consulted on the project brief.	-	CAG is being consulted at this June 2020 meeting.
B. Development of Proposed International Standard			
B1.	The IPSASB has considered whether to issue a consultation paper or undertake other outreach activities to solicit views on matters under consideration from constituents.	N/A	This step has not been reached.
B2.	If comments have been received through a consultation paper or other public forum, they have been considered in the same manner as comments received on an exposure draft.	N/A	This step has not been reached.
B3.	The IPSASB CAG has been consulted on significant issues during the development of the exposure draft.	N/A	This step has not been reached.
B4.	The IPSASB has approved the issue of the exposure draft.	N/A	This step has not been reached.