

# NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

## 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*<sup>1</sup>;
  - (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.

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<sup>1</sup> IPSAS 13 is based on IAS 17, *Leases* which has since been superseded by IFRS 16, *Leases*.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 consolidations<sup>2</sup>; 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.

## 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.

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<sup>2</sup> 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 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.

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