

**Meeting:** International Public Sector Accounting Standards Board

**Meeting Location:** New York, USA

**Meeting Date:** March 10–13, 2020

# Agenda Item 13

For:

- Approval  
 Discussion  
 Information

## ACCOUNTING FOR NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS IN THE PUBLIC SECTOR

<b>Project summary</b>	The objective of the Accounting for Non-current Assets Held for Sale and Discontinued Operations in the Public Sector project is to develop an IPSAS aligned with IFRS 5, <i>Non-current Assets Held for Sale and Discontinued Operations</i>	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	<a href="#">Accounting for Non-current Assets Held for Sale and Discontinued Operations in the Public Sector: Project Roadmap</a>	<a href="#">13.1.1</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">13.1.2</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">13.1.3</a>
<b>Decisions required at this meeting</b>	<a href="#">Review of Accounting for Non-current Assets Held for Sale and Discontinued Operations in the Public Sector draft Project Brief and Outline</a>	<a href="#">13.2.1</a>
<b>Other supporting items</b>	<a href="#">Accounting for Non-current Assets Held for Sale and Discontinued Operations in the Public Sector – draft Project Brief and Outline</a>	<a href="#">13.3.1</a>

**ACCOUNTING FOR NON-CURRENT ASSETS HELD FOR SALE AND  
DISCONTINUED OPERATIONS IN THE PUBLIC SECTOR  
PROJECT ROADMAP**

<b>Meeting</b>	<b>Completed Actions or Discussions / Planned Actions or Discussions:</b>
March 2020	1. Initial review of Accounting for Non-current Assets Held for Sale and Discontinued Operations draft Project Brief and Outline
June 2020	1. Approval of Accounting for Non-current Assets Held for Sale and Discontinued Operations Project Brief and Outline 2. Discuss Issues 3. Review draft Exposure Draft (ED)
September 2020	1. Approve ED
October 2020	1. Issue ED
November 2020 – February 2021	1. Consultation Period (4 Months)
March 2021	1. Review of Comments
June 2021	1. Review [draft] IPSAS
September 2021	1. Approve IPSAS
October 2021	1. Issue IPSAS

**INSTRUCTIONS UP TO PREVIOUS MEETING**

<b>Meeting</b>	<b>Instruction</b>	<b>Actioned</b>
March 2020	1. (None – draft project brief and outline to be presented at this meeting)	1. N/A

**DECISIONS UP TO PREVIOUS MEETING**

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

## **Review of Accounting for Non-current Assets Held for Sale and Discontinued Operations draft Project Brief and Outline**

### **Question**

1. The IPSASB is asked to review the draft project brief and outline and provide feedback for input into a final project brief and outline for approval at the June 2020 meeting.

### **Detail**

2. Theme B of the IPSASB's *Strategy and Work Plan 2019-2023* is 'Maintaining alignment with IFRS'. At present there is no equivalent IPSAS to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. This is despite IFRS 5 being cited in many IFRS that have equivalent aligned IPSAS. Therefore, this has potentially created a difference in accounting requirements.
3. The question as to whether an IPSAS aligned with IFRS 5 should be developed has been raised in the context of several projects, more recently in regard to the projects on IPSAS 40, *Public Sector Combinations* and the current Measurement project. At the March 2019 meeting the Board agreed with a Measurement Task Force recommendation that measurement of assets held for sale should be addressed separately from the Measurement project.
4. Therefore, based on this decision, this minor, narrow scope alignment project has commenced which is aimed at reducing unnecessary differences between IPSAS and IFRS.
5. The IPSASB is asked to review the attached draft project brief and outline and provide staff with feedback as to any other areas for examination that have not yet been identified.

### **Decision Required**

6. Does the IPSASB agree with the issues highlighted in the project brief, or are there any other issues which should be considered?

## **ACCOUNTING FOR NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS IN THE PUBLIC SECTOR**

### **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. Therefore, there is no guidance within IPSAS on how to account for non-current assets that are to be sold or for operations that will discontinue.
- 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 At present there are no specific accounting requirements for non-current assets that have been classified as held for sale. However, IPSAS 1 does require information relating to discontinued operations to be disclosed in the Statement of Financial Performance and/or the accompanying notes.

## 4. Project Objective

### 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 development of a Consultation Paper (CP) is not deemed warranted based on the following considerations:
- (a) *Global Variation in Accounting Policies* – Although IFRS standards are developed for the private sector, some national standard-setters have also adopted IFRS for use by public sector entities and therefore have also adopted the requirements of IFRS 5<sup>3</sup> but adapted for the public sector. Therefore, it is not expected that there is a high degree of variation in accounting policies.
  - (b) *Existing Requirements and Guidance of Global and National Public Sector Standard-Setters* – As noted above in paragraph 4.2(a), several jurisdictions are already using a standard based on IFRS 5. This project will draw from IFRS 5 and consider how national public sector standard setters have adopted IFRS 5 for the public sector.

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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.

<sup>3</sup> These include Australia, New Zealand, South Africa (only for discontinued operations) and the United Kingdom.

- (c) *Complexity* – 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.

- 4.3 Due to the lack of variation in accounting policies, lack of complexity and adoption of IFRS 5 requirements by other national standard-setters for use in the public sector, a CP should not be developed as part of this project.

*Achieving the Objective*

- 4.4 To achieve the objective, it will be necessary to:

- (a) Develop a [draft] IPSAS aligned with IFRS 5, including any appropriate consequential amendments to other IPSAS.

- 4.5 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.
- 5.2 To confirm that the development of the guidance is required, the IPSASB's flowchart (see attached as [Appendix A](#)) regarding the development of guidance was considered and the following points were noted:
- (a) Decision 1: Is the issue prevalent in the public sector? Yes, many public sector entities sell non-current assets when they are either going to be replaced or are surplus to needs.
  - (b) Decision 2: Is there sufficient authoritative IPSAS guidance that already addresses the issue in the public sector? No, there is no guidance in IPSAS.
  - (c) Decision 3: Is the issue related to general purpose financial statement? Yes, requirements in IFRS 5 may impact depreciation, impairment, measurement, and presentation and disclosure.
  - (d) Decision 5: Is the issue relevant to other projects? Yes, this project is relevant to the current project on Measurement.

### **Key Issues**

- 5.3 The key issues are listed below.

*Key Issue #1 – Measurement*

- 5.4 IFRS 5 requires that non-current assets held for sale are to be measured at the lower of carrying value and fair value less costs to sell.
- 5.5 Currently, 'fair value' in IPSAS and 'fair value' in IFRS are different but it is expected that the *Measurement* project will introduce requirements aligned IFRS 13, *Fair Value*.

5.6 This project will consider whether fair value is appropriate for non-current assets held for sale in the public sector. Issues the IPSASB will need to consider in deciding if the principles for IFRS 5 are appropriate in the public sector include:

- (a) The specialized nature of some public sector assets may make them difficult to measure; and
- (b) Public sector assets are normally held for service potential rather than financial capacity.

*Key Issue #2 – Depreciation and Impairment*

5.7 IFRS 5 requires that a sale of a non-current asset held for sale is expected to be concluded within one year<sup>4</sup> and therefore depreciation ceases once an asset is classified as held for sale.

5.8 IAS 16, *Property, Plant and Equipment* and IAS 36, *Impairment of Assets* scope out non-current assets held for sale therefore the depreciation and impairment requirements in these standards do not apply. However, the IPSAS equivalents, IPSAS 17, and IPSAS 26 do not make the same exclusion for non-current assets held for sale. Therefore, under IFRS, depreciation will cease on non-current assets held for sale while under IPSAS depreciation will continue until the asset is derecognized.

5.9 The IPSASB will need to consider whether this 12-month restriction is appropriate in the public sector as some public sector assets may take longer than one year to be sold.

*Key Issue #3 – Presentation and Disclosure*

5.10 Both IFRS 5 and IPSAS 1 have requirements for presentation and disclosure of discontinued operations. These requirements will be considered and assessed to determine if they are aligned.

## **6. Describe the Implications for any Specific Persons or Groups**

### **Relationship to the IASB**

6.1 The project is primarily linked to IFRS 5, there are also links to various IFRS including:

- (a) IAS 1, *Presentation of Financial Statements*;
- (b) IAS 10, *Events after the Reporting Period*;
- (d) IAS 16, *Property, Plant and Equipment*;
- (e) IAS 36, *Impairment of Assets*;
- (f) IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*;
- (g) IAS 38, *Intangible Assets*.
- (h) IAS 40, *Investment Property*;
- (i) IAS 41, *Agriculture*; and

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<sup>4</sup> Non-current assets classified as held for sale are reclassified at current asset, hence the requirement for a sale to be concluded within 12 months. However, IFRS 5 provides guidance if an extension of the period is required to complete a sale,

- (j) IFRS 12, *Disclosure of Interests in Other Entities*.

#### **Relationship to Other Standards, Projects in Process or Planned Projects**

- 6.2 As noted in paragraph 1.3 this project is linked to multiple IPSAS.
- 6.3 Due to the requirement for the use of an IFRS 13 fair value, there are also links to the current project on Measurement.

#### **Other – Government Finance Statistics (GFS)**

- 6.4 The IPSASB supports the reduction of unnecessary differences between GFS and IPSAS in the development of new IPSASs and revisions to existing IPSASs. 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>
Initial Review draft Project Brief and Outline	March 2020
Approve Project Brief and Outline Discuss Issues Review Draft Exposure Draft	June 2020
Approve Exposure Draft	September 2020
Issue ED – Consultation period (4 months)	October 2020
Review of Comments	March 2021
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 task force will not be required

### **Staff**

8.2 It is envisaged that 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 the Measurement project.

## **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's Flowchart the Development of New Guidance**

