

Comments and suggestions on the IPSASB Proposals of ED79

“Non-current Assets Held for Sale and Discontinued Operations”

Task force IRSPM PSA&A SIG, CIGAR Network, EGPA PSG XII

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The IPSASB has requested comments and answers to specific questions regarding its Exposure Draft 79. Following the IPSASB’s strategy of maintaining alignment with IFRS, ED 79 proposes to develop a new standard that provides guidance on the accounting for non-current assets classified as held for sale and the presentation and disclosure requirements for discontinued operations.

The comments and responses prepared by the Task Force IRSPM PSA&A SIG, CIGAR Network and EGPA PSG XII are presented below. The IRSPM PSA&A SIG, CIGAR Network and EGPA PSG XII are three research networks that focus on Public Sector Accounting. The Task Force is made up of 17 researchers from these networks. The views expressed in this document represent those of the members of the Task Force and not of the whole research community represented by the networks, and neither of the Institutions/Universities with which they are affiliated.

CORE ASSUMPTIONS

We are of the opinion that, in general, public sector entities require public sector specific principles and standards that properly accommodate public sector specificities. As such, when public sector transactions resemble those taking place in the private sector, then principles and standards may be kept as aligned as possible. However, for public sector specific transactions, we are in favour of standards that are not adapted artificially from private sector accounting and we think there is a need to seek options that best fit the public sector. This core thesis underpins our proposals and recommendations herein.

We appreciate the opportunity to contribute to the consultation. **Our response is in two parts.** It consists of a "**General Comment**" and the proper "**Specific Matter Comment**".

GENERAL COMMENT on the ED 79 ‘Non-current Assets Held for Sale and Discontinued Operations’

We welcome the opportunity to comment on the proposed ED 79 for a standard on measurement, presentation and disclosure of information on non-current assets held for sale and discontinued operations in the public sector. Although we acknowledge the convenience of overall convergence with the IFRS, we see the development of standards and guidance on matters that are specific to the public sector as being a particularly important part of the continuing programme of work of the IPSASB. These specific matters should not be seen as a specific case under IFRS, but as situations that almost never occur in business enterprises and for which IFRS have no answer because those situations do not exist in business enterprises.

Accordingly, as discussed further, we believe that the standard proposed by the ED 79 is of very narrow application in the public sector.

The ED 79, being based on IFRS 5, disregards unique situations that only occur in governments. In fact, despite this proposal for a standard and the existing IPSAS, there are several assets, namely “other fixed assets”, which remain without guidance about their accounting treatment within the IPSAS. A few important examples are:

- a) Assets that are not used for service provision and for which the government decided a status of “other fixed assets”, which are held as a reserve or a ‘rainy day fund’ for future budgetary shortages. Another frequently occurring reason for this kind of status is the situation in which a government/entity cannot yet decide when and how to sell an asset because of the absence of authorization by a higher level of government, or because of postponements due to a resigning government or ministry, among other reasons.
- b) Assets which become the property of a government as a consequence of an inheritance without any beneficiary and for which the government becomes legal owner.
- c) Assets acquired through donations or other non-exchange transactions, which cannot be used for service provision, but which the government has not yet decided to sell (assets such as agricultural land, certain [old] buildings, woods, lakes, etc., obtained via donation or similar transactions).
- d) Assets resulting from confiscation.

In summary, the ED 79 starts from the point of view that it applies to non-current assets that are available for immediate sale and that their sale is highly probable, but as such, the standard ignores an important number of typical governmental situations. In fact, there are important non-current assets in the public sector that, even if they could be disposed of, are temporarily idle, and are neither held for public services, nor as investment property, nor for immediate sale. The assets under these conditions continue to be ignored in IPSAS.

Specific Matter for Comment

The IPSASB decided that there was no public sector specific reason to depart from the measurement requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. However, the IPSASB considers that, where materially different, disclosures of the fair value of non-current assets classified as held for sale measured at a lower carrying amount would provide useful information to users of financial statements for accountability purposes. This additional proposed disclosure is shown at paragraph 52 of the ED. Do you agree with this disclosure proposal? If not, why not?

Response:

This ED provides guidance for public sector entities to account for assets held for sale, and to present and disclose discontinued operations.

In paragraph BC.9, the IPSASB states there are no public sector specific reasons to depart from the measurement criteria defined in IFRS 5. In our view, for this sentence to be true, this new standard has to assume that there is a market for all assets held for sale and discontinued operations and that it is possible to sell them. As highlighted in our General Comment above, this assumption may not be realistic when considering the nature of many assets in public administrations overall.

Therefore, as it is, the proposal for this standard raises questions regarding its application, besides being of narrow application in the public sector. **The assumption that the standard applies to public sector assets susceptible to be sold and to have a market value must be highlighted from the start.** The standard may not be applied for several non-cash-generating assets, even if they may be part of a discontinued operation or a disposal group. For example, a school or a hospital in a certain area is to be closed; but the buildings and other structures are for such specific purposes that the future (private sector) buyer may not use them at the current state; the buyer may even demolish them. In these cases, only the land may have a market (fair) value, given that the market value depends on the use the future buyer can make of the assets.

Overall, we are of the opinion that the **ED 79 should better consider public sector specificities.**

We recommend the assumption in paragraph BC.9, that the assets to be sold are held with the purpose of financial capacity, should be clearly stated at the beginning of the standard, and that the entity shall present a justification in the notes when changing the purpose of holding the assets from operational capacity to financial capacity, so that the measurement criteria should be better sustained.

All the above considered, as to the **specific matter for comment** regarding additional disclosures required in paragraph 52, we agree that, where materially different, the fair value of non-current assets classified as held for sale measured at a lower carrying amount, should be disclosed by the entity. In the light of transparency and accountability in the public sector underlined in paragraph BC.12, it is important that financial reporting users recognise the potential for an asset to provide financial capacity to the entity. The fair value is also important as a reference for the selling price,

so that information users can see whether the assets are being undersold (public property misused) and are thus enabled to evaluate the financial effects of disposals of non-current assets and discontinued units by a government or any other public administration.

Comments on other matters in this Exposure Draft

The references, in paragraph 42, to income tax and pre-tax and post-tax surplus/deficit of discontinued operations, are assuming that these operations were cash-generating and referred to profit-driven units. Again, this may not be always true. Commercial public sector entities, owned either by the state or by local authorities, may be subject to a tax regime, but in that case they mostly follow IFRS and are out of the IPSAS scope. Most entities in public administration are exempt from income tax. **We suggest the standard to include further guidance and examples to clarify situations when these taxes occur.**

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Signed on behalf of the persons listed below:

Caroline	Aggestam Pontopiddan	Associate Professor of Accounting	Copenhagen Business School, Denmark
Eugenio	Anessi Pessina	Professor of Public Management	Università Cattolica del Sacro Cuore, Milan, Italy
Natalia	Aversano	Associate Professor of Accounting	University of Salerno, Italy
Yuri	Biondi	Senior Tenured Research Fellow of the CNRS	IRISSO, University Paris Dauphine PSL, France
Marco	Bisogno	Associate Professor of Accounting	University of Salerno, Italy
Isabel	Brusca	Professor of Accounting and Finance	University of Zaragoza, Spain
Eugenio	Caperchione	Professor of Public Management	University of Modena and Reggio Emilia, Italy
Josette	Caruana	Senior Lecturer	Department of Accountancy, University of Malta, Malta
Johan	Christiaens	Professor of Public Sector Accounting and Auditing, CPA	Ghent University, Belgium
Sandra	Cohen	Professor of Accounting	Athens University of Economics and Business, Greece
Giovanna	Dabbicco	Researcher, and Adjunct Assistant Professor	ISTAT - Italian National Institute of Statistics, Italy
Ellen	Haustein	Lecturer and Scientific Researcher of Accounting, Management Control and Auditing	University of Rostock, Germany
Susana	Jorge	Associate Professor of Accounting	University of Coimbra, Portugal
Peter Christoph	Lorson	Professor of Accounting, Management Control and Auditing	University of Rostock, Germany
Francesca	Manes Rossi	Associate Professor of Accounting, CPA	University of Naples Federico II, Italy
Mariafrancesca	Sicilia	Associate Professor of Public Sector Management and Accounting	University of Bergamo, Italy
Ileana	Steccolini	Professor of Accounting and Finance	Essex University, U.K.