

IFAC PUBLIC SECTOR COMMITTEE

***INTERNATIONAL PUBLIC SECTOR
ACCOUNTING STANDARDS
EXPOSURE DRAFT 23***

SUBMISSIONS RECEIVED

EXPOSURE DRAFT 23

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**PROFESSIONAL ACCOUNTING BODIES
AND NATIONAL STANDARD SETTERS**

16 December 2003

The Technical Director
Public Sector Committee
545 Fifth Avenue, 14th Floor
New York, New York 10017
United States of America.

Dear Sir/Madam

Comments on ED 23 "Impairment of Assets"

Thank you for the opportunity to comment on Exposure Draft ED 23 "Impairment of Assets". Comments of the staff of the Australian Accounting Standards Board are included below.

1. General Comments

We generally support ED 23 "Impairment of Assets". However, we consider that further improvements can be made. Our comments are detailed below.

2. Specific Matters for Comment

- (a) *the proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of the Exposure Draft (ED).*

We agree with the proposal that the IPSAS arising from ED 23 should not exclude agricultural assets (other than inventories), goodwill and all other identifiable intangible assets that are not explicitly excluded in paragraph 1 of ED 23. However, it would be beneficial if the IPSAS arising from ED 23 could include commentary or guidance to depict instances where goodwill or other intangible assets of a non-cash-generating nature could arise.

- (b) *the proposal to define cash-generating assets as assets held by:*

- (i) *Government Business Enterprises (GBEs); and*
- (ii) *public sector entities other than GBEs to generate a commercial rate of return (paragraph 13);*

We agree with the proposed definition of cash-generating assets. In particular we believe that the focus on the generation of a "commercial rate of return" should be retained in the definition.

- (c) *the proposal to assess at each reporting date whether there is an indicator that an asset may be impaired. Paragraph 20 identifies a minimum set of indicators, but the list is not exhaustive;*

We agree with the proposal.

- (d) *the proposal to estimate an asset's recoverable service amount when an indicator of impairment is present at the reporting date (paragraph 19);*

We agree with the proposal. We believe the IPSAS arising from ED 23 should continue to stress that the recoverable service amount should be determined only if an indicator of impairment exists.

- (e) *the proposal to exclude the decline in market value from the list of minimum indicators set out in black letter in paragraph 20 but indicate in commentary that it may be an indicator (paragraph 21);*

We understand the PSC's concern that a decline in market value of an asset may not indicate impairment on the grounds that the service potential of an asset may remain unchanged despite the decline in its market value. However, we believe that where a market for an asset exists, it is useful to have a significant decline in the market value of the asset as an indicator. We propose that the "significant decline in the market value of an asset" be added to the minimum list of indicators of impairment but the commentary should explain the circumstance in which the indicator is most relevant. We propose that an increase in the market value be also included in the minimum set of indicators of reversal of an impairment loss. We do not see a public sector specific reason to depart from IAS 36 in regards to these indicators.

- (f) *whether the Standard should include:*

- (i) *a reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by paragraph 20; and*
- (ii) *an increase in demand or need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified by paragraph 53;*

We do not understand why a significant change in the extent of use of an asset can be included as an internal indicator in the minimum set of indicators in paragraphs 20 and 53, but a significant change (reduction or increase) in demand for goods or services provided by an asset cannot be included as an external indicator. We believe a significant reduction (increase) in demand should be included as an external indicator of impairment (reversal of impairment loss) in the minimum set of indicators in paragraphs 20 and 52 since it plays a similar role as a "significant change in the extent of use" as far as the indication of the occurrence of an impairment (or reversal of an impairment loss) is concerned.

- (g) *the proposal to measure the value in use of a non-cash-generating asset using the depreciated replacement cost, restoration cost and service units approaches as appropriate (paragraph 36);*

We agree with the use of these approaches to measure impairment loss subject to our comment and proposal in (h) below.

- (h) *whether the three approaches to determination of value in use set out in paragraphs 37 to 41 are separate approaches as in the ED or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches;*

We believe that both the restoration cost approach and service unit approaches are using the depreciated replacement cost as the basic measurement tool and amend the depreciated replacement cost to conform to the situations under review. One situation is where physical damage has occurred and restoration cost (which is the current replacement cost of the decline in the service potential of the asset arising from physical damage) is used to arrive at the replacement cost of the asset in its damaged state. The other situation is where a decline in the service potential can be measured by reference to decline in service units. Thus "service units approach" does not offer any new measurement approach. Rather it is a technique, among many techniques that entities can employ (to conform to their circumstances) in measuring the replacement cost of the asset in its impaired state.

We therefore propose that the IPSAS arising from ED 23 should classify the "restoration cost" and "service units" approaches as two possible or usual techniques of arriving at the depreciated replacement cost of an asset rather than as independent approaches to measurement of value in use. This proposal will

also remove the ambiguity that may have been created because readers may have the perception that the term “depreciated replacement cost” has a different meaning in ED 23 than it does in IPSAS 17 *Property, Plant and Equipment*.

It is proposed that the IPSAS arising from ED 23 contain further guidance on determination of the depreciated replacement cost of an asset. We propose the following be included as commentary:

“The depreciated replacement cost of an asset can be generally determined by reference to the market buying price of a similar asset with similar remaining service potential. In some cases, the depreciated replacement cost of an asset can be determined by reference to the market buying price of components with similar remaining service potential used to produce the asset or the indexed price for the same or a similar asset with similar remaining service potential based on a price for a previous period. In some cases, the market buying price of a similar asset or similar components cannot be observed. In these cases the depreciated replacement cost of an asset can be determined by reference to the market buying price of the remaining service potential of the asset. Where the market buying price of the remaining service potential of the asset does not reflect the service potential of the asset before impairment adjusted to reflect the asset in its impaired state, depending on the circumstances giving rise to the impairment, the restoration cost approach or the service units approach is adopted.”

We note that if our proposals above are taken up, the following consequential amendments are required:

- (i) the final sentences of paragraphs 40 and 41 are no longer necessary and should be deleted; and
- (ii) the section on “applications of approaches” needs to be redrafted to reflect the fact that the restoration cost and service units approaches are two techniques of arriving at the depreciated replacement cost of the asset in certain circumstances.
- (i) *the proposal to recognize an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset’s recoverable service amount is less than its carrying amount (paragraphs 45 and 47);*

We agree with the proposal. We propose the significant rise in the market value of the asset and the significant increase in the demand be included in the minimum set of indicators of reversal of an impairment loss. See our comments on (e) and (f) above.

- (j) *the proposal to assess at each reporting date whether there is an indicator that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased. Paragraph 53 identifies a minimum set of indicators, but the list is not exhaustive;*

We agree with the proposal.

- (k) *the proposal to estimate an asset’s recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 52);*

We agree with the proposal. We believe that the IPSAS arising from ED 23 should continue to stress that the recoverable service amount should be determined only if an indicator of reversal exists.

- (l) *the proposal to recognize a reversal of an impairment loss if, and only if, there has been a change in estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognized, and increase the asset’s carrying amount to its recoverable service amount subject to the ceiling set in paragraph 61 (paragraphs 58, 61 and 62); and*

We agree with the proposal.

- (m) *the proposal to make disclosures as set out in paragraphs 65 and 68 –70.*

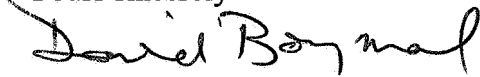
We agree with the proposal. However, we believe that the IPSAS arising from ED 23 should reflect the disclosures required by the revised IAS 36 that arises from IASB ED 3. The wording of the disclosure requirements of the latter seems to be clearer.

3. Revised IAS 36

ED 23 has used IAS 36 *Impairment of Assets* as the foundation standard for preparing an IPSAS on impairment of assets including non-cash generating assets. IAS 36 was in the process of revision as part of the IASB's Business Combinations Project when ED 23 was being prepared. It is proposed that when the IPSAS on impairment of assets is being finalised, due attention be paid to changes to IAS 36 provisions (see also comment under (m) above).

Should you wish to discuss the above comments further or require clarification of any issues raised, please contact Angus Thomson on 61 (3) 9617 7618 or Ahmad Hamidi-Ravari on 61 (3) 9617 7643.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Boymal', written in a cursive style.

David Boymal
Chairman

30 January 2004



The Technical Director
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**Office of the Chief Executive
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Dear Sir

ED 23: "Request for Comment on Impairment of Assets"

General Comments

Australia is adopting International Accounting Standards from 1 January 2005. As the Australian Accounting Standards Board is responsible for setting standards for all types of entities, they are currently going through the process of making the Australian equivalent to the International Accounting Standards sector neutral.

CPA Australia supports the adoption of IAS and the promotion of sector neutral standards. As a general rule, CPA Australia believes that the Australian equivalent to IAS should be a verbatim adoption of IAS and therefore unless there is a public sector specific reason for not adopting the IAS then there should be no differences. CPA Australia therefore encourages the IFAC Public Sector Committee to do the same. Furthermore, whilst we acknowledge that the IASB should consider the implications of International Public Sector Accounting Standards (IPSAS) in the process of creating global convergence in accounting standards, the PSC should also have a role to play and open communication is encouraged.

Whilst CPA Australia supports the adoption of ED 23 "Impairment of Assets", it notes that the Standard is unlikely to improve financial reporting in the public sector in those jurisdictions, such as Australia, that revalue assets. We are concerned that the ED fails to identify a practical and workable solution for identifying the impairment of assets that do not have a commercial use. Accordingly, further work should be done to develop a more robust approach to identifying and measuring the impairment of assets.

As requested, CPA Australia makes the following comments on the specific issues identified in ED 23. Where we have not responded to a specific question, CPA Australia agrees with the approach taken.

The proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets

We agree with this proposal except for non-cash generating property, plant and equipment measured at fair value under IPSAS 17 "Property, Plant and Equipment". We disagree with the exclusion of property, plant and equipment measured at fair value. This exclusion creates an unnecessary difference between the proposed IPSAS and the December 2002 Exposure Draft of IAS 36 "Impairment of Assets." That Exposure Draft does not exclude property, plant and equipment carried at fair value. It explains in paragraph 4 how such a revalued asset may be impaired, including:

- Where the assets' fair value is its market value, the only difference between fair value and net selling price is the direct incremental cost to dispose of the asset;
- Where fair value is determined on a basis other than market value, its revalued amount may be greater or lower than its recoverable amount.

CPA Australia believes that this should be aligned with the proposed international standard.

The proposal to define cash-generating assets as assets held by Government Business Enterprises (GBEs) and public sector entities other than GBEs to generate a commercial rate of return

We support the general principle that assets which generate a commercial rate of return should apply the requirements of IAS 36. However, there are a number of issues that need to be explored further and clarified. Do the assets of a service that makes a marginal return (and is heavily subsidised by government) constitute a group of assets that generate a commercial rate of return? There is also the issue of consolidation, whereby at the entity level an entity may be operated on a commercial basis but when the assets are aggregated they are in fact non-commercial and therefore not cash generating assets.

The proposed definition of GBEs includes those GBEs that break even in their operations. We believe that the definition for GBEs should refer to the objective of the entity rather than to its actual performance. For example, in Australian Accounting ED 109 "Request for Comment on IASB ED 3 "Business Combinations", IASB ED of Proposed Amendments to IAS 36 "Impairment of Assets", IAS 38 "Intangible Assets" and AASB added material, the Australian Accounting Standards Board proposal is "A *not-for-profit entity* is an entity whose principal objective is not the generation of profit". Under this definition an entity pursuing cost-recovery rather than profit would be a not-for-profit entity.

The proposal to assess at each reporting date whether there is an indicator that an asset may be impaired

We agree with this proposal.

The proposal to estimate an asset's recoverable service amount when an indicator of impairment is present at the reporting date

We agree with the process but the term "recoverable service amount" is problematic since recoverability is traditionally used to indicate an "exit" price. In this context, this term is not an accurate reflection of the intention of this proposal.

The proposal to exclude the decline in market value from the list of minimum indicators used to assess whether there is any indication that an asset may be impaired

We do not agree. We believe that a significant decline in an asset's market value is important enough to be included in the black letter requirements of paragraph 20. This change would make it consistent with IAS 36.

Whether the Standard should include a reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment and an increase in demand or need for services provided by the asset from a previously reduced level as an indicator of the reversal of the impairment loss

CPA Australia is concerned about the practical application of "demand" driven valuations. The example which is used in the Exposure Draft of a school being turned into a storage facility is a rare and unlikely circumstance. Demand for public services are driven by a range of factors and in many cases the utilisation of particular assets varies considerably over time. For example, the enrolments at a school may be driven by demographic factors but may also be a direct community response to poor management and school performance. In practice, it will be very difficult to reflect changes in demand in value of public sector assets in circumstances other than where assets have been abandoned or are no longer operational. Apart from situations where public sector assets are used in manufacturing activities, it will be meaningless to attempt to apply a "utilisation" rate and then embark on a process of trying to identify whether or not there is some measurable diminution in the value of the asset.

The proposal to measure the value in use of a non-cash generating asset using the depreciated replacement cost, restoration cost or the service unit approach.

We agree with this proposal.

Whether the three approaches set out above, to determine value in use are separate approaches or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches

The three approaches mentioned above should be considered as components within a framework of determining depreciated replacement cost. If that is not the case, it is unclear what valuation principle is being applied.

This submission has been prepared on behalf of CPA Australia. Please contact Naomi Carroll, Technical Adviser – Accounting and Audit on +61-3-9606 9872 or via email naomi.carroll@cpaaustralia.com.au or Anna D'Alessandro, Policy Adviser – Public Sector on +61-3-9606 9734 or via email anna.dalessandro@cpaaustralia.com.au, should you have any queries regarding this submission.

Yours sincerely

Greg Larsen, FCPA
Chief Executive
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BOTSWANA INSTITUTE OF ACCOUNTANTS

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**PRIVATE BAG 0021
GABORONE
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29 January 2004

International Federation of Accountants
545 Fifth Avenue
14th Floor
New York, NY10017
USA

Dear Madam/Sir

Re: Exposure Draft 23-Impairment of Assets

We write to confirm that we have studied the Exposure Draft and we have no further comment on it.

Yours truly,

Godfrey B Molefe
Executive Officer and Secretary of the Institute

Matthew Bohun

From: lynannn [lynannneri@ifac.org]
Sent: Tuesday, 10 February 2004 1:34 AM
To: 'PaulSutcliffe'; 'JerryGutu'; 'Matthew Bohun'
Cc: Heathergayatgay@ifac.org
Subject: FW: Comments of GASAB Secretariat on ED 23

-----Original Message-----

From: Dir1(GASAB) [mailto:dir1gasab@cag.delhi.nic.in]
Sent: Friday, February 06, 2004 8:26 PM
To: EDComments@ifac.org
Subject: Comments of GASAB Secretariat on ED 23

Mr. Paul Sutcliffe

Technical Director,
Public Sector Committee,
International Federation of Accountants.

File No.GASAB/Sectt/Asset/43-2003
6 February 2004

Dear Mr. Sutcliffe,

Kindly refer to my earlier e-mail dated January 30th 2004 on the subject of comments on ED – 23, Impairment of Assets. I enclose the two attached files containing the observations of the Government Accounting Standards Advisory Board (GASAB) Secretariat.

Annex A contains the comments on the specific matters sought in the Introduction of the document while Annex B contains some additional observations.

With regards
Yours sincerely,

Soma Roy Burman
Director, GASAB,
India.

Sl.No.	Specific Matters on which Comment sought	Our Comment
(a)	<p>The Committee would particularly value comment on:</p> <p>The proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of the Exposure Draft (ED). Paragraph 1 excludes:</p> <ul style="list-style-type: none"> (i) inventories; (ii) assets arising from construction contracts; (iii) financial assets included in the scope of International Public Sector Accounting Standard IPSAS 15 <i>Financial Instruments: Disclosure and Presentation</i>; (iv) investment property that is measured at fair value under International Public Sector Accounting Standard IPSAS 16 <i>Investment Property</i>, and non-cash-generating property, plant and equipment measured at fair value under International Public Sector Accounting Standard IPSAS 17 <i>Property, Plant and Equipment</i>; and (v) other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard. 	<ol style="list-style-type: none"> 1. Inclusion of agricultural assets, goodwill and all other identifiable intangible assets is agreed to. 2. Paragraph 3 of the ED may be augmented at the end to read '(non-cash generating asset) subject to the exceptions mentioned in paragraph 1'. 3. In the public sector, Property, Plant and Equipment is a significant component of the assets. Infrastructure assets, which are included under this category (in IPSAS 17 : Property, Plant and Equipment,) are in turn of considerable importance to Governments. 4. IPSAS 17 requires an asset to be carried at cost less any accumulated depreciation and accumulated impairment losses in (paragraph 38) in the benchmark treatment. In the allowed alternative treatment in (paragraph 39) that carrying amount is the revaluation amount less subsequent accumulated depreciation/impairment losses. Paragraph 66 refers the treatment of <i>impaired assets</i> to International or National Accounting Standards, mentioning in the footnote that this Standard on Impairment of Assets is being developed by the IFAC PSC. 5. Non-cash generating assets of public sector entities (other than Government Business Enterprises) under Property, Plant and Equipment may be included within the scope of this Exposure Draft.

Sl.No.	Specific Matters on which Comment sought	Our Comment
(b)	<p>The proposal to define cash-generating assets as assets held by:</p> <p>(i) Government Business Enterprises (GBEs); and</p> <p>(ii) Public sector entities other than GBEs to generate a commercial rate of return (paragraph 13).</p>	<ol style="list-style-type: none"> 1. C18(b) mentions that GBEs do hold non-cash generating assets. C18(c) mentions that such non-cash generating assets are grouped with cash generating assets of the GBE to form <i>cash generating units</i>. This ED does not recognise cash generating units and all assets of GBEs cannot be said to be cash generating. 2. The definition of cash generating asset may be therefore amended as 'assets held by public sector entities to generate a commercial rate of return'. 3. Commercial rate of return may also be defined explicitly. 4. The materiality of non-cash generating asset of GBEs could be considerable in India since quasi-fiscal activities of GBEs are significant.
(c)	<p>The proposal to assess at each reporting date whether there is an indicator that an asset may be impaired. Paragraph 20 identifies a minimum set of indicators, but the list is not exhaustive.</p>	<ol style="list-style-type: none"> 1. Paragraph 20 may include a reduction or a significant recovery of demand or need for services as an indicator [Comments on item (f) below refer]. 2. In case of construction contracts, a clear specification is required to delineate temporary suspension/postponement of construction from abandonment. This is required to avoid either unnecessary reversal in the short or medium term or mis-classification of an abandoned project as 'work in progress' merely for want of a decision.
(d)	<p>The proposal to estimate an asset's recoverable service amount when an indicator of impairment is present at</p>	<p>No comments.</p>

Sl.No.	Specific Matters on which Comment sought	Our Comment
	the reporting date (paragraph 19).	
(e)	The proposal to exclude the decline in market value from the list of minimum indicators set out in black letter in paragraph 20 but indicate in commentary that it may be an indicator (paragraph 21).	No comments.
(f)	Whether the Standard should include: (i) a reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by paragraph 20; and (ii) an increase in demand or need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified by paragraph 53.	<ol style="list-style-type: none"> 1. A 'significant long term reduction or decline in demand for or need for the services' provided may be included along with 'cessation' thereof in paragraph 20. Similarly, the words 'resurgence of demand or need for services' mentioned in paragraph 53 may be substituted with 'significant long term recovery of demand or need for services'. 2. The commentary may also guide the preparers so as to deter frequent unjustified impairments/reversals.
(g)	The proposal to measure the value in use of a non-cash-generating asset using the depreciated replacement cost, restoration cost or service units approaches as appropriate (para 36).	<ol style="list-style-type: none"> 1. The Standard has initiated a measurement of value in use of non-cash generating assets – this is appreciated. 2. The difficulty in using an explicit approach is outlined in C5 and therefore the other approaches have been formulated for implicit determination of Value in use. It is suggested that an approach working out the value of service potential explicitly may also be added as an alternative.

Sl.No.	Specific Matters on which Comment sought	Our Comment
(h)	Whether the three approaches to determination of value in use setout in paragraphs 37 to 41 are separate approaches as in the ED, or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches.	As both the restoration cost approach and service units approach base the measurement of initial value in use on the depreciated replacement cost approach, a regrouping of the two approaches may be considered under depreciated replacement cost approach.
(i)	The proposal to recognize an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset's recoverable service amount is less than its carrying amount (paragraphs 45 and 47).	1. An illustration of an instance where the impairment loss exceeds the carrying amount may be added in the Appendix B with a numerical example. This may also be suitable reflected in the commentary, indicating the position of recoverable service amount.
(j)	The proposal to assess at each reporting date whether there is an indicator that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased. Paragraph 53 identifies a minimum set of indicators, but the list is not exhaustive.	Comments on item (f) above refer.
(k)	The proposal to estimate an asset's recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 52).	The "impairment loss" is an actual expense in the earlier Statement of Financial Performance and is to be reversed by the recognition as revenue in the current year in the Statement of Financial Performance. Rather than saying "an impairment loss" recognised earlier may no longer exist or may have decreased, it may be mentioned that "an impairment" recognised earlier no longer exists or may have decreased.

Sl.No.	Specific Matters on which Comment sought	Our Comment
(l)	The proposal to recognize a reversal of an impairment loss if, and only if, there has been a change in estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized, and increase the asset's carrying amount to its recoverable service amount subject to the ceiling set in paragraph 61 (paragraphs 58, 61 and 62).	No comments.
(m)	The proposal to make disclosures as set out in paragraphs 65 and 68 – 70.	<ol style="list-style-type: none"> 1. Paragraph 69 requires the disclosure of the basis to determine net selling price or approach used to determine value in use, depending on which is higher and has been adopted as recoverable service amount. 2. It is suggested that where net selling price and value in use have both been determined and the impairment loss or the reversal for an asset is material, the entity should disclose both the basis/approach.

S. No.	Paragraph of the Exposure Draft 23	Our Comment
1	Objective	The commentary may also include the scope in brief to indicate that the Standard applies only to non-cash generating assets of public sector entities other than Government Business Enterprises with the exception stated.
2	Paragraphs 26 and 57	It needs to be explained further as to why a reworking of depreciation (amortization) needs to be carried out even if no impairment loss or reversal thereof is recognised for the asset. Specific parameters may be indicated.
3	Paragraph 29	The words ' <i>Paragraphs 33 and 34 set out possible alternative basis for estimating net selling price when an active market does not exist</i> ' may be suitably redrafted to reflect that paragraph 33 deals with the situation when the asset is traded in the active market and only paragraph 34 provides the alternative treatment when an active market does not exist.
4	Paragraph 37	An example of reproduction vs. replacement may be provided in the commentary as in other IPSAS (reproduction of the parliament building rather than relocation to another accommodation).
5	Paragraphs 45 and 58	<ol style="list-style-type: none"> 1. In case of impairment loss it is mentioned that it should be recognised as an expense in the statement of financial performance and a reversal as revenue in the <i>statement of financial performance</i> (Paragraphs 47 and 62). 2. Similarly the recognition of lower carrying amount in case of impairment and increased carrying amount in case of reversal of impairment may be specified in the <i>statement of financial position</i> in paragraphs 45 and 58.
6	Paragraph 54	There is a need to explain the concept of materiality in greater detail on the lines of paragraph 25 in the interest of better clarity and comprehension.

S. No.	Paragraph of the Exposure Draft 23	Our Comment
7	Paragraphs 50 and 63	A numerical example may be provided in Appendices.
8	Paragraph 73	The last sentence needs to be reworded to make the meaning clear .



**The Japanese Institute of
Certified Public Accountants**

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January 15, 2004

The Technical Director

Public Sector Committee

545 Fifth Avenue, 14th Floor

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**Comments on the Proposed International Public Sector Accounting Standard
“Impairment of Assets”**

Dear Sir:

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the Proposed International Public Sector Accounting Standard “Impairment of Assets” (the “Proposed Standard”) as follows:

1. Specific Matter: (a)

(1) The scope of the Proposed standard

We do not agree with the proposal to include agricultural assets and goodwill in the scope of the Proposed Standard.

We agree with the proposal to include intangible assets other than goodwill in the scope of the Standard.

(Basis for Comment)

We do not expect agricultural assets or goodwill to arise in the public sector in a non-cash-generating context at present.

We recommend discussing the impairment of these assets after identifying the existence of these assets in the public sector.

As other intangible assets such as patents obtained as a result of research and development in the public sector are expected to arise in a non-cash-generating context, those assets should be included in the scope.

(2) The difference between this Proposed Standard and IAS 36

The reason for the difference between this Standard and IAS36 on assets carried at fair value should be explained.

(Basis for Comment)

This Standard excludes plant and equipment that are measured at fair value from the scope. Appendix C16 explains that revaluation with sufficient regularity ensures that they are carried at an amount that is not materially different from their fair value as at the reporting date and any impairment will be taken into account in the valuation.

However IAS36 (para4) says that it applies to assets that are carried at revalued amount under other IASs, such as the allowed alternative treatment in IAS16 (Property, Plant and Equipment) as well. It also says that an enterprise applies IAS36 after those revaluation requirements have been applied if the disposal costs are not negligible or when the asset's fair value is determined on a basis other than its market value.

The same circumstances (where disposal costs are not negligible; asset's fair value is determined on a basis other than its market value; or the revaluation cycle is every three or five years) are also expected in a non-cash-generating context. Thus the reason for the difference of treatment should be explained.

2. Specific Matter: (g) and (h)

The current wording of paragraph 36, “the present value of the remaining service potential of the asset is determined using the approaches identified in paragraphs 37 to 41, as appropriate” does not give a clear guidance for the choice of the most appropriate approach.

We propose that the “depreciated replacement cost approach” should be placed as a basic approach that is considered first. Either of the other two approaches is applied, as appropriate, in the circumstances such as physical damage or reduced number of

service units, where the depreciated replacement cost cannot be calculated reliably.

(Basis for Comment)

The depreciated replacement cost approach is most appropriate for measuring the remaining service potential whenever the reliable replacement cost of the impaired asset is measurable.

The other two approaches are considered some variations of the depreciated replacement cost approach under special circumstances.

3. Others

Appendix C3 describes the “service potential” of cash-generating assets is reflected by their ability to generate future cash flows.

We believe that proper wording for the underlined phrase is the “economic benefit.”

(Basis for Comment)

Whereas IFRSs define the “asset” as the “economic benefit,” IPSASs define the “asset” as the “economic benefit and the service potential.” We understand that the “service potential” is used in a non-cash-generating context.

Very truly yours,

Shinobu Miyauchi
Executive Director
Chair of the Public Sector Committee
The Japanese Institute of Certified Public Accountants

IFAC Public Sector Committee
t.a.v. The Technical Director
545 Fifth Avenue, 14th Floor
10017 New York
United States of America

Our ref : CEPMDH/004
Direct dial nr: +3120-3010347 / Faxnumber: +3120-3010302
Date : February 9, 2004
Re : c.houting@nivra.nl

Dear Mr. Sutcliffe,

We appreciate the opportunity to comment on the Exposure Draft 23 "Impairment of assets". Our comments are as follow:

1. We would prefer to reduce the references to other IPSAS and name all relevant assets, which are applicable in this Exposure Draft. All relevant information should be incorporated. In our opinion this will improve the readability of the Exposure Draft.
2. It is our suggestion to make a few explanatory remarks on assets related to public sector. Assets in public sector are often non-cash-generating and have typical features. These features have consequences for the guidelines incorporated in this Exposure Draft.
3. Paragraph 42 states "The choice of the most appropriate approach to measuring value in use depends on the availability of data and the nature of the impairment.". Our suggestion is to identify the approach which has preference. What if the value in use of an asset cannot be determined?
4. Paragraph 47 states "An impairment loss should be recognized as an expense in the statement of financial performance immediately.". Should an impairment loss be considered as a 'normal' expense or as an extraordinary expense? E.g. Paragraph 62 that concerns a reversal of an impairment loss.
5. Paragraph 20b/c states "(...) significant long-term changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates;". We suggest to confine 'the near future'.
6. Paragraph 20: What is the benefit of the difference made between external sources of information and internal sources of information. The difference appears artificial?

Yours faithfully,

Drs. R.G. Bosman RA
Technical Director



I n s t i t u t e o f
CHARTERED ACCOUNTANTS

o f N e w Z e a l a n d

SUBMISSION TO THE
INTERNATIONAL FEDERATION OF ACCOUNTANTS
PUBLIC SECTOR COMMITTEE

ON

EXPOSURE DRAFT 23

IMPAIRMENT OF ASSETS

Prepared by
Institute of Chartered Accountants of New Zealand

February 2004

SUBMISSION TO THE IFAC PUBLIC SECTOR COMMITTEE

ED 23: *IMPAIRMENT OF ASSETS*

A. OVERALL VIEW

Thank you for the opportunity to comment on Exposure Draft (ED) 23 *Impairment of Assets*.

Overall we believe that in respect of non-cash generating assets the proposed IPSAS will assist preparers to provide information relevant to the users of the financial statements of public sector entities. However, we consider that the proposed standard could be simplified in a number of areas, especially in relation to the three methods for estimating value in use of a non-cash-generating asset.

In addition, we believe it is important that IPSASs remain as close as possible to the standards developed by the IASB (and its predecessor the IASC) and that IPSASs should differ only if there is a good public sector reason for doing so. We believe that a key objective of the PSC is to work to ensure high quality financial reporting by public sector entities and ultimately to contribute to the development of a single comprehensive series of standards applicable to all entities. Unnecessary differences between the IPSASs and IFRS will create barriers to achieving this objective. In a number of instances ED 23 introduces terminology and alters requirements contained in IAS 36 for which a specific public sector reason does not appear to be clearly evident.

Our specific comments are set out below.

B. DEFINITIONS

The definitions adopted reflect the overall approach to assessing impairment of non-cash generating assets. We believe that rationalising and simplifying the proposed definitions will assist in simplifying the proposed standard and ensure that it remains as close as possible to IAS 36. Our main concerns are:

- New terms are introduced but defined in the same way as terms defined in IAS 36. This may cause difficulties in the future if a global series of sector neutral standards is developed. For example the definition of “Recoverable Service Amount” (RSA) is virtually identical to the definition of “Recoverable Amount” (RA) in IAS 36. We question whether a different term is needed.
- This approach is not consistent with the approach taken when developing other IPSAS, such as IPSAS 12 Inventories. For example, the net realisable value (NRV) test adopted in IPSAS 12 *Inventories* is essentially an impairment test. However, IPSAS 12 does not amend the definition or title of NRV with respect to inventories that are not held to generate net cash inflows, rather a different measurement basis is introduced to address inventories held for distribution at nil or for nominal consideration. We believe a consistent approach should be adopted in developing the suite of IPSAS.

- Minor inconsistencies in definitions and terminology. For example the definition of RSA (and RA) refers to “value in use”. However, the proposed standard defines “value in use of a non-cash generating asset”. Further, “present value” is a term commonly associated with discounted cash-flow analysis. Reference to present value of service potential in the context of non-cash generating assets may create some confusion.

We recommend that:

- the definition of RSA be replaced by the following definition of recoverable amount (RA):

Recoverable amount is the higher of an asset’s net selling price and its value in use.

- the following definition of “value in use” replace the proposed definition of “value in use of a non-cash generating asset”.

Value in use, in respect of non-cash generating assets, is the present value of the asset’s remaining service potential.

As discussed below we believe that depreciated replacement cost is a broad approach that could encompass the restoration and service units approaches. If this view is accepted then in addition to the above definitions a further definition could be added as follows:

Present value of an asset’s remaining service potential is equivalent to the asset’s depreciated replacement cost.

Alternatively it would be possible to avoid defining “value in use” and “present value of an assets remaining service potential” by defining recoverable amount as follows:

Recoverable amount, in respect of non-cash generating assets, is the higher of an asset’s net selling price and its depreciated replacement cost.

C. SPECIFIC MATTERS FOR COMMENT

- (a) *the proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of the Exposure Draft (ED). Paragraph 1 excludes:*
 - (i) *inventories;*
 - (ii) *assets arising from construction contracts;*
 - (iii) *financial assets included in the scope of International Public Sector Accounting Standard IPSAS 15 Financial Instruments: Disclosure and Presentation;*

- (iv) *investment property that is measured at fair value under International Public Sector Accounting Standard IPSAS 16 Investment Property, and non-cash generating property, plant and equipment measured at fair value under International Public Sector Accounting Standard IPSAS 17 Property, Plant and Equipment; and*
- (v) *other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard;*

We agree with the proposal to exclude from the scope of the proposed standard those assets categories listed in paragraph 1, except for (iv) in relation to property, plant and equipment.

This is a difference from IAS 36 and we do not consider it to be necessary for the following reasons:

- there is no clear public sector reason for this difference; and
- including revalued PPE within the scope of the proposed standard will have very little, if any, affect on accounting for impairment of revalued assets because IPSAS 17 requires entities to assess annually whether the fair value of their revalued PPE is materially different from the carrying amount – this is effectively an impairment test.

We note that IAS 36 requires impairment losses on revalued PPE to be accounted for as a revaluation decrease in accordance with IAS 16. If revalued PPE is included in the proposed IPSAS a similar requirement to that in IAS 36 will need to be introduced.

We believe that differences from IAS should be introduced only where absolutely necessary. In our view there is no public sector reason for this difference. If the PSC believes that revalued PPE should be excluded from the standard we recommend that the PSC raise this issue with the IASB.

Paragraph 1(e) excludes from the scope of the proposed standard “other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard.” We believe that the intention of this point is to function as a “catch-all” paragraph to exclude certain other assets not specifically mentioned in ED 23. However, paragraph 1(e) does not catch all other assets which should be excluded from the standard, for example, heritage assets and intangible assets measured at fair value and for which there is currently no IPSAS.

We suggest paragraph 1(e) be amended to include “other non-cash-generating assets measured at fair value”. We believe this amendment is necessary in order to ensure consistent application of the principle described in paragraph 1(d) in relation to investment property and non-cash-generating property, plant and equipment measured at fair value.

- (b) *the proposal to define cash-generating assets as assets held by:*

- (i) *public sector Government Business Enterprises (GBEs); and*
- (ii) *public sector entities other than GBEs to generate a commercial rate of return (paragraph 13);*

The reference to “public sector” in part (a) of the definition is redundant (there are no “private sector” GBEs) and is not consistent with the definition of GBE.

In addition the definition of “cash-generating assets” does not really define cash generating assets; rather it describes entities whose assets are deemed to be cash-generating. We understand that formulating a workable definition of cash-generating assets is difficult. However, we consider that re-defining cash-generating assets would be beneficial, particularly if a global series of sector neutral standards is to be developed in the long term.

Also the ED appears to assume that all assets held by GBEs are done so to generate a commercial rate of return. However, GBEs include entities that “sell goods and services ... at a profit or full cost recovery”. Entities that recover costs may generate net cash inflows – but such net cash inflows by definition will be less than a market or commercial return. Such net cash inflows would not constitute an adequate basis to assess whether the entities assets were impaired.

Deeming all assets of GBEs to be cash generating may also create inconsistent accounting treatment. For non-GBEs cash-generating assets include only those assets that are held to generate a commercial rate of return. This will mean that similar assets will be subject to different impairment tests depending on the nature of the entity that owns them.

In essence cash-generating assets are those assets held to generate a commercial rate of return. We recommend that cash generating assets be defined as:

Cash generating assets are assets held to generate a commercial rate of return.

- (c) *the proposal to assess at each reporting date whether there is an indicator that an asset may be impaired. Paragraph 20 identifies a minimum set of indicators, but the list is not exhaustive;*

We agree with the list of impairment indicators included in paragraph 20. We agree that this list is not exhaustive.

Paragraph 20 (b) and (d) state “significant long term changes with an adverse effect on the entity have taken place during the period or are expected to take place in the near future ...”

The equivalent paragraphs in IAS 36 refer only to “significant changes”. It is unclear to us:

- whether there is a public sector specific reason for inclusion of the words “long term”;

- how to determine whether a “long term” change has taken place during the reporting period or is expected to do so in the near future.

We recommend that the phrase “long-term” be deleted.

- (d) *the proposal to estimate an asset’s recoverable service amount when an indicator of impairment is present at the reporting date (paragraph 19);*

We agree with paragraph 19.

- (e) *the proposal to exclude the decline in market value from the list of minimum indicators set out in black letter in paragraph 20 but indicate in commentary that it may be an indicator (paragraph 21);*

We disagree with the proposal to exclude “decline in market value” from the list of minimum indicators. We recommend that a significant decline in the market value of an asset be included in paragraph 20 for the following reasons:

- IAS 36 includes in the minimum list of indicators of impairment a significant decline in market value. In our view there is no public sector reason for excluding a significant decline in the market value of an asset from the list of impairment indicators that must be considered;
- excluding a significant decline in the market value of an asset as an indicator is not consistent with the objective of the impairment test – which is to ensure that the carrying amount of an asset does not exceed its recoverable amount, particularly when “net selling price” is a key part of the definition of recoverable service amount. It is, therefore, difficult to see how a significant decline in the market value of an asset should not be considered in assessing whether or not an asset should be tested for impairment;
- in some cases a decline in the market value of an asset may be the only observable indicator of changes adversely affecting an entity.

- (f) *whether the Standard should include:*

- (i) *a reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by paragraph 20; and*
- (ii) *an increase in demand or need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified by paragraph 53;*

We agree that a reduction (other than cessation) in demand or need for services provided by the asset should be included as an indicator of impairment in the minimum set of indicators identified by paragraph 20.

We believe that the indicators of a reversal of impairment loss as set out in paragraph 53 should mirror the indicators of an impairment loss set out in paragraph 20.

- (g) *the proposal to measure the value in use of a non-cash generating asset using the depreciated replacement cost, restoration cost or service units approaches as appropriate (paragraph 36);*

We are comfortable with the general approach of estimating value in use for non-cash flow assets, although as noted in our comments on the definition we believe the approach could be simplified considerably. We also have a number of concerns regarding the measurement proposals with respect to value in use of a non-cash generating asset.

If each of the three methods provides a different answer then additional guidance is necessary to explain when each method should be used. The criteria as to when each method is to be used as set out in paragraph 42 are not well defined. The ED appears to propose that entities use what in their own judgement is the appropriate method. If the three methods are to be retained then the criteria must be tightened if comparability is to be achieved.

If the three methods provide a similar answer then referring to three methods may be confusing to users.

Depreciated replacement cost is a key element of each of the three methods (see Table 1 below). We believe that it is possible to define DRC broadly to encompass the restoration cost and service units approaches.

Table 1:

- Depreciated replacement cost: Paragraph 37 states the present value of the remaining service potential is determined as the depreciated replacement cost and that the depreciated replacement cost is measured as the reproduction cost or replacement cost of the asset, whichever is lower, less accumulated depreciation.
- Restoration cost: Paragraph 40 states that the present value of the remaining service potential is determined by subtracting the estimated restoration cost of the asset from the current cost of the remaining service potential of the asset before impairment. The latter cost (current cost of replacing the remaining service potential) is usually determined as the depreciated reproduction cost or replacement cost of the asset, whichever is lower
- Service units approach: Paragraph 41 states that the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform with the reduce number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential is usually determined as the depreciated reproduction cost or replacement cost of the asset, whichever is lower.

The following is the definition of DRC adopted in FRS-3 *Property, Plant and Equipment*. This definition was developed in New Zealand specifically with public sector entities in mind and it may be useful for the PSC to consider if it agrees to include a definition of DRC. If this approach is agreed it could be supplemented with examples illustrating the restoration cost and service units approaches.

Depreciated replacement cost” is a method of valuation that is based on an estimate of:

- (a) in the case of property:*
 - (i) the fair value of land; plus*
 - (ii) the current gross replacement costs of improvements less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity;*
- (b) in the case of plant and equipment, the current gross replacement cost less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity.*

FRS-3 also includes discussion about DRC that provides further guidance on application of the concept – including guidance on optimisation, obsolescence and surplus capacity. A copy of this guidance is included in the appendix to this submission.

- (h) whether the three approaches to determination of value in use set out in paragraphs 37 to 41 are separate approaches as in the ED, or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches;*

We consider that depreciated replacement cost (DRC) is a broad approach and that it should be defined to encompass the restoration cost approach and the service units approach. Illustrative examples of the restoration cost approach and the service units approach could be provided in the appendices to the standard.

Paragraphs 42(a) and 42(b) appear to be virtually identical. If they are to be retained we recommend that these paragraphs be combined.

- (i) the proposal to recognize an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset’s recoverable service amount is less than its carrying amount (paragraphs 45 and 47);*

We agree with the proposal to recognise an impairment loss and reduce the carrying amount of the asset to its recoverable amount, when the asset’s recoverable service amount is less than its carrying amount.

We agree that an impairment loss should be recognised as an expense in the statement of financial performance immediately.

- (j) *the proposal to assess at each reporting date whether there is an indicator that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased. Paragraph 53 identifies a minimum set of indicators, but the list is not exhaustive;*

We agree with the proposal for an entity to assess at each balance date whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased. The criteria set out in paragraph 53 should mirror those in paragraph 20.

Consistent with our earlier view we recommend that a “significant rise in an asset’s market value” be included in paragraph 53.

- (k) *the proposal to estimate an asset’s recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 52);*

We agree with the proposal set out in paragraph 52.

- (l) *the proposal to recognize a reversal of an impairment loss if, and only if, there has been a change in estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognized, and increase the asset’s carrying amount to its recoverable service amount subject to the ceiling set in paragraph 61 (paragraphs 58, 61 and 62); and*

We agree with the proposals in paragraphs 58, 61, and 62.

- (m) *the proposal to make disclosures as set out in paragraphs 65 and 68 – 70.*

We agree with the proposals in paragraphs 65, 68 – 70.

D. CONCLUSION

I trust the comments are helpful. Please contact Simon Lee or myself should you require any further comment.

Yours faithfully

Joanna Perry
Chair – Financial Reporting Standards Board

APPENDIX 1:

EXTRACT: FRS-3 Accounting For Property Plant And Equipment Depreciated Replacement Cost

4.10 “Depreciated replacement cost” is a method of valuation that is based on an estimate of:

- (a) in the case of property:**
 - (i) the fair value of land; plus**
 - (ii) the current gross replacement costs of improvements less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity;**
- (b) in the case of plant and equipment, the current gross replacement cost less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity.**

COMMENTARY

4.11 Fair value is defined in paragraph 4.23 of this Standard. Depreciated replacement cost is an acceptable estimate of the fair value of an asset only where the fair value of the asset is not able to be reliably determined using market-based evidence. In the case of property, market-based evidence might exist concerning either the land component or the property in aggregate. Depreciated replacement cost is used as an estimate of the fair value of property only where the fair value of the property in aggregate cannot be reliably determined using market-based evidence.

4.12 In the context of this Standard, depreciated replacement cost is based on the reproduction cost of a specific asset. In principle, it reflects the service potential embodied in the asset. However, in some cases, the reproduction cost of the specific asset is adjusted for optimisation in determining depreciated replacement cost.

4.13 Optimisation refers to the process by which a least cost replacement option is determined for the remaining service potential of an asset. This process recognises that an asset may be technically obsolescent or over-engineered, or the asset may have greater capacity than that required. Hence optimisation minimises, rather than maximises, a resulting valuation where alternative lower cost replacement options are available. In determining depreciated replacement cost, optimisation is applied for obsolescence and relevant surplus capacity.

4.14 Obsolescence may arise from factors such as outmoded design and functionality of an asset and changed code requirements preventing reconstruction of an asset in its current form. In determining depreciated replacement cost, optimisation for obsolescence is made by reducing the reproduction cost of the specific asset held to the cost of a modern equivalent asset that provides equivalent service potential to that of the specific asset held.

4.15 Surplus capacity may arise from either over-design or from surplus components of an asset. In determining depreciated replacement cost, optimisation is applied only to surplus capacity that is not required currently and for which there is no reasonable prospect it will ever be required in utilising an asset in its current form. Optimisation is not applied to surplus capacity that, while rarely or never used, is necessary for stand-by or for safety purposes.

4.16 In determining depreciated replacement cost, the extent of any reduction in value for surplus capacity subject to optimisation depends on whether that surplus capacity has an alternative use to the current use of the asset. Where there is no alternative use, the optimised

value of the surplus capacity is zero. Where there is an alternative use, the optimised value of the surplus capacity is the value of the highest and best alternative use of that capacity.

4.17 To illustrate the distinction described in paragraph 4.16 between surplus capacity not having an alternative use to the current use of the asset and that which does, consider the following example. Assume depreciated replacement cost is to be determined for a network of water pipes where the pipe diameter is greater than currently required or ever expected to be required (including that necessary for stand-by or for safety purposes). There is also a discrete segment of the piping network that is similarly not required for the current use of the asset but which can be closed off and used for other purposes, such as a liquid storage facility. In this case, the surplus diameter of the piping would be disregarded for valuation purposes but the surplus segment of the piping network would be valued at its highest and best alternative use.

4.18 In most cases, surplus capacity subject to optimisation is expected to be disregarded in determining the depreciated replacement cost of an asset. Such surplus capacity is unlikely to have an alternative use unless it is physically and operationally separable from the required capacity.

4.19 In determining depreciated replacement cost, optimisation for obsolescence and relevant surplus capacity is applied only to the extent that it reflects the most probable use of the asset that is physically possible, appropriately justified, legally permissible and financially feasible.

4.20 As evident from the definition of depreciated replacement cost, optimisation is applied only in determining the depreciated replacement cost of plant and equipment and in determining an estimate of the value of the improvements component of the depreciated replacement cost of property. Optimisation is not applied in determining the value of the land component of the depreciated replacement cost of property. The value of the land component will always reflect the fair value of the actual land held, in terms of both its size and location.

4.20A In instances where the land is underutilised, the fair value of the land will be determined by reference to the highest and best use of such land. For example, in a case where specialised manufacturing facilities are located in a prime central business district site but the operation would be able to be run from a smaller sized and less valuable alternative site offering the same service potential, the fair value of the land would be the open market value of the entire central business district-located site.

4.21 An amount equal to the amount of borrowing costs that would be embodied in the fair value of the asset is included as a component of depreciated replacement cost. The inclusion of such an amount as a component of depreciated replacement cost is consistent with the principle underlying the inclusion in the initial cost of an asset of borrowing costs eligible for capitalisation in accordance with section 5 of this Standard. The amount to be included as a component of depreciated replacement cost is determined on the basis of the average debt to equity ratio and average cost of debt applicable to entities within the same industry as the entity reporting.

Institute of Cost and Management Accountants of Pakistan
EDComments@ifac.org

No. R/Exp/Comments-8/04

January 22, 2004

The Technical Director
Public Sector Committee
545 Fifth Avenue, 14th Floor
New York, New York 10017
United States of America

Subject: **Exposure Draft 23 Impairment of Assets**

Dear Sir,

Following comments are offered on the Exposure Draft ED 23 **Impairment of Assets** (Proposed International Public Sector Accounting Standard) issued September 2003:

Impairment exists when the carrying amount of a long lived assets or asset group exceeds its fair value and is not recoverable. Therefore it is required to look into for impairment when certain changes occur, including a significant decrease in the market price of a long lived asset. Apart from that how the company uses an asset or changes in the business climate that could affect the asset's value.

All financial assets are not subject to impairment unless they are excluded from the scope like the ones excluded from Public Sector Accounting Standard OPSAS 15 and are carried out at fair value with changes recognized in the income statement. However, trading assets cannot be impaired, as they are, measured at fair value at each balance sheet date, with changes at fair value recognized in the income statement. Similarly assets available for sale cannot be impaired if the entity desires to record all changes in the income statement. All remaining categories of financial assets say loan, held to maturity and available for sale at fair value, changes are subject to impairment.

Fair value is the amount that could be bought or sold for in a current transaction between willing parties. Quoted prices in active markets is the best evidence of fair value because market prices are not always available.

When a company recognizes an impairment loss for an asset group, that should be allocated to the asset of a particular group on proportionate basis. In this connection a note of disclosure should also be made showing the description of asset and the ground, which lead to impairment.

There should be an agreement that in impairment of assets, the recoverable amount of an asset held is its fair value, while the recoverable amount of assets held for disposal is fair value less cost of disposal.

Business recognizes impairment when the financial statement carrying amount of a long lived asset or asset group exceeds its fair values and is not recoverable. A carrying amount is not recoverable if it is greater than the sum of the undiscounted cash flows expected from use of assets or eventual disposal.

With best regards,

Yours truly,

Kamaluddin
Director Research



30 January 2004

The Technical Director
Public Sector Committee
545 Fifth Avenue, 14th Floor
New York
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**ACCOUNTING STANDARDS BOARD SUBMISSION ON EXPOSURE DRAFT 23 -
IMPAIRMENT OF ASSETS**

In response to your request for comments on Exposure Draft 23 - *Impairment of Assets* issued by the International Federation of Accountants – Public Sector Committee (IFAC – PSC), attached please find the comment letter prepared by the Accounting Standards Board. The Accounting Standards Board is the official accounting standard setter for the public sector in South Africa.

We would like to thank you for the opportunity to provide comments on this document. In addition to our response to the questions raised, we have also included general comments on aspects not specifically dealt with in the questions.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Erna Swart
Chief Executive Officer

Board Members: Ms Z Bassa, Mrs M Brown, Mr R Cottrell, Ms B Hogan,
Mr S Kana, Dr L Konar, Mr I A Mamoojee, Mr J J Njeke, Mr T Nombembe, Mr I Sehoole

COMMENTS ON SPECIFIC MATTERS

Question (a)

Scope paragraphs

(a) the proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of the Exposure Draft (ED). Paragraph 1 excludes:

- (i) inventories;*
- (ii) assets arising from construction contracts;*
- (iii) financial assets included in the scope of International Public Sector Accounting Standard IPSAS 15 Financial Instruments: Disclosure and Presentation;*
- (iv) investment property that is measured at fair value under International Public Sector Accounting Standard IPSAS 16 Investment Property, and non-cash generating property, plant and equipment measured at fair value under International Public Sector Accounting Standard IPSAS 17 Property, Plant and Equipment; and*
- (v) other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard;*

Inclusions in the scope of the proposed Standard

Agricultural Assets

IAS 41 *Agricultural Assets* determines that a biological asset should be measured on initial recognition and at each balance sheet date at its fair value, less estimated point-of-sale costs (IAS 41.12). However, if the fair value cannot be measured reliably, the biological assets should be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, an enterprise should measure the biological asset at its fair value less estimated point-of-sale costs (IAS 41.30). The IAS also determines that agricultural produce harvested should be measured on initial recognition at its fair value less estimated point-of-sale costs (IAS 41.13).

We are of the opinion that biological assets and agriculture produce harvested measured at fair value should be excluded from the scope of this proposed Standard as these assets will be revalued with sufficient regularity, i.e. at each balance sheet date, and any impairment will be taken into account in the determination of the fair value. However, in instances where the fair value of a biological asset cannot be determined reliably and the biological assets is measured at its cost less any accumulated depreciation and any accumulated impairment losses, the proposed Standard should be applied.

We recommend that the scope of the proposed Standard be amended to clearly indicate when the proposed Standard should and should not be applied to biological assets and/or agriculture produce harvested.

Goodwill and all other identifiable intangible assets

We are of the opinion that goodwill and intangible assets relate to marketable assets and are therefore cash-generating assets rather than non cash-generating assets. Reference should thus rather be made to IAS 36 *Impairment of Assets* that deals with impairment of cash generating assets.

In the case of goodwill and/or intangible assets relating to non cash-generating assets, we recommend that additional guidance as to how the goodwill and/or intangible assets that arose from non cash-generating assets would be assessed should be included in the proposed Standard. This guidance should be supported by relevant public sector examples. The proposed Standard should also be clear as to when reference should be made to IAS 36 *Impairment of Assets* and when the guidance in the proposed Standard should be applied.

We further recommend that the provisions of the International Accounting Standard's Board business combination project, specifically on assessing impairment of goodwill be considered in the proposed Standard.

Exclusions from the scope of the proposed Standard

Property, Plant and Equipment

IPSAS 17 *Property, Plant and Equipment* determine that an item of property, plant and equipment should be carried at its cost less accumulated depreciation and any accumulated impairment loss (IPSAS 17.38). In terms of the allowed alternative treatment an item of property, plant and equipment could be carried at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value should be determined with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using the fair value at the reporting date (IPSAS 17.39).

We agree with the exclusion of an item of property, plant and equipment that is carried at fair value under the allowed alternative treatment as included in the proposed Standard. However, we would encourage a specific indication in the proposed Standard that when applying the benchmark treatment in terms of IPSAS 17, the proposed Standard should still be applied.

Investment Property

IPSAS 16 *Investment Property* determines that after initial recognition, an entity that chooses the fair value model should measure all of its investment property at its fair value, except in the exceptional cases as described in paragraph .55 of the IPSAS. Paragraph 55 states that there is a rebuttable presumption that an entity will be able to determine the fair value of an investment property reliably on a continuing basis, but if there is clear evidence when an entity first acquires an investment property that the entity will not be able to determine the fair value of the investment property reliably on a continuing basis, the entity shall measure that investment property using the benchmark treatment in the IPSAS on *Property, Plant and Equipment*. The entity shall then continue to apply the IPSAS on *Property, Plant and Equipment* until the disposal of the investment property.

As with the exclusion of property, plant and equipment, we agree with the exclusion of an item of investment property that is carried at fair value under the allowed alternative treatment as

included in the proposed Standard. However, we would encourage a specific indication in the proposed Standard that when applying the benchmark treatment in terms of IPSAS 17 in exceptional cases, the proposed Standard should still be applied.

Other exclusions

We agree in general with all the other scope exclusions listed in paragraph 1 of the proposed Standard.

The reasons for the proposal to exclude revalued assets (being investments and property, plant and equipment) from the scope of this proposed Standard is understood to be that the revalued assets would approximate its fair value, and any impairment will be taken into account in valuation. We do not understand the reason to deviate from IAS 36 without a public sector specific reason.¹ Why then was the guidance in the footnote below included in the private sector equivalent standard?

Other matters to consider for inclusion in the scope paragraph

Assets arising from employee benefits are not explicitly excluded from the scope of the proposed Standard, and since an IPSAS on employee benefits has not been issued, these assets would fall into the scope of the proposed Standard. In our view, it would be impracticable to apply the requirements of the proposed Standard to these types of assets. We suggest that assets arising from employee benefits be scoped out of the proposed Standard and that wording similar to paragraph 9, explaining the exclusion of financial assets from the scope of the proposed Standard, be added to explain this exclusion.

It is questioned if the standard would apply to heritage assets. Heritage assets have been excluded from the scope of IPSAS 17, pending further work to be undertaken by the PSC. It seems premature to include heritage assets in the scope of the impairment standard without a standard on its recognition and measurement.

Examples used should be expanded to not only mainly deal with property, plant and equipment type assets, but also give examples of agricultural assets and other types of identifiable intangible assets.

¹ Guidance in IAS 36/AC 128:

However, identifying whether or not a revalued asset may be impaired depends on the basis used to determine fair value:

- (a) if the asset's fair value is its market value, the only difference between the asset's fair value and its net selling price is the direct incremental costs to dispose of the asset:
 - (i) if the disposal costs are negligible, the recoverable amount of the revalued asset is necessarily close to, or greater than, its revalued amount (fair value). In this case, after the revaluation requirements have been applied, it is unlikely that the revalued asset is impaired and recoverable amount need not be estimated, or
 - (ii) if the disposal costs are not negligible, net selling price of the revalued asset is necessarily less than its fair value. Therefore, the revalued asset will be impaired if its value in use is less than its revalued amount (fair value). In this case, after the revaluation requirements have been applied, an enterprise applies this statement to determine whether or not the asset may be impaired, and
- (b) if the asset's fair value is determined on a basis other than its market value, its revalued amount (fair value) may be greater or lower than its recoverable amount. Hence, after the revaluation requirements have been applied, an enterprise applies this statement to determine whether or not the asset may be impaired.

Question (b)

(b) The proposal to define cash-generating assets as assets held by:

- (i) Government Business Enterprises (GBEs); and*
- (ii) public sector entities other than GBEs to generate a commercial rate of return (paragraph 13);*

We agree with the proposed definition for “cash-generating assets” but recommend that more guidance should be included in the proposed Standard to distinguish between a cash-generating and a non-cash generating asset. When providing additional guidance on this distinction, consideration should be given to the inclusion of relevant public sector examples.

We also recommend that the term “commercial rate of return” as used in the definition of cash-generating assets, be defined in the proposed Standard.

Question (c)

(c) The proposal to assess at each reporting date whether there is an indicator that an asset may be impaired. Paragraph 20 identifies a minimum set of indicators, but the list is not exhaustive;

We agree with the proposals as outlined in paragraph 19 and 20.

However, we need to recognise in proposing the implementation date of this Standard that there will have to be allowance for training of those involved with asset management responsibilities, how and when to identify the triggers, communication to those responsible for governance and financial reporting etc.

Question (d)

(d) the proposal to estimate an asset’s recoverable service amount when an indicator of impairment is present at the reporting date (paragraph 19);

We agree with the proposal as outlined in paragraph 19.

Question (e)

(e) the proposal to exclude the decline in market value from the list of minimum indicators set out in black letter in paragraph 20 but indicate in commentary that it may be an indicator (paragraph 21);

We agree with the exclusion of the decline in market value from the list of minimum indicators set out in black letter in paragraph 20 as this principle is incorporated in paragraph 20(b) and does not need to be highlighted specifically in black letters.

The private sector IAS 36 uses “value in use”, which includes an estimation of the net cash flows from the cash-generating asset **over the long term**. There is an absence of this long-

term view in the recoverable service amount test for non-cash generating assets, i.e. there is no “value in use” barrier for a free fall to market value as in IAS 36.

Question (f)

(f) Whether the Standard should include:

- *A reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by paragraph 20; and*
- *An increase in demand or need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified in paragraph 53.*

We agree with the proposals outlined in paragraph 20 and 53. The intention was to provide a “safe harbour” and not to trigger premature impairment tests to be undertaken. Due to cost/benefit situations, only significant events with adverse effects over the long term should trigger a review for impairment.

In comparison with the private sector, we need to remember that the “value in use” is compared with market value. Value in use is based on the long-term view of cash inflows from the asset, and in the public sector we need to compensate somewhere for this long-term view on impairments.

Question (g)

(g) The proposal to measure the value in use of a non-cash generating asset using the depreciated replacement cost, restoration cost or service units approaches as appropriate (paragraph 36);

We agree with the three approaches included in the proposed Standard to determine the value in use, but we recommend inclusion of further guidance in the proposed Standard on how management should determine replacement or reproduction cost and when the restoration cost or service unit approach should be used. The guidance should also include relevant public sector examples and should provide bases and examples of the best evidence of an asset replacement cost.

Question (h)

(h) Whether the three approaches to determination of value in use set out in paragraph 37 to 41 are separate approaches as in the ED or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches;

It seems that there is a broad principle (current replacement cost plus an adjustment), and three different applications thereof (being depreciation, restoration cost, or service units as the basis for the adjustment) depending on the type of asset.

We recommend that the guidance on the depreciated replacement cost approach specifically indicate that the approach encompasses the restoration cost or service units approach. Both the restoration cost and service units approach should use the replacement cost as the

benchmark (net of depreciation) to make the restoration or reduced service potential adjustment.

We further recommend that guidance be given as to whether the market value or the optimised value of an asset should be used when applying the depreciated replacement cost.

Question (i)

(i) the proposal to recognise an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset's recoverable service amount is less than its carrying amount (paragraphs 45 and 47);

We agree with the proposals outlined in paragraphs 45 and 47.

Question (j)

(j) the proposal to assess at each reporting date whether there is an indicator that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased. Paragraph 53 identifies the minimum set of indicators, but the list is not exhaustive;

We agree with the proposal outlined in paragraph 52 and the minimum set of indicators outlined in paragraph 53.

Question (k)

(k) the proposal to estimate an asset's recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 52);

We agree with the proposal outlined in paragraph 52.

Question (l)

(l) the proposal to recognise a reversal of an impairment loss if, and only if, there has been change in estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized, and increase the asset's carrying amount to its recoverable service amount subject to the ceiling set in paragraph 61 (paragraphs 58, 61 and 62);

We agree with the proposals outlined in paragraphs 58, 61 and 62, where the ceiling is the net book value to be reconsidered if scope exclusion on revalue assets is reconsidered.

Question (m)

(m) the proposal to make disclosures as set out in paragraphs 65 and 68-70

We agree with the proposals outlined in paragraphs 65 and 68-70. However, additional disclosures may need to be considered if the scope exclusion on revalued assets and heritage assets are reconsidered.

GENERAL COMMENTS ON ASPECTS NOT SPECIFICALLY DEALT WITH IN THE SPECIFIC QUESTIONS

Definitions

Some definitions included in the proposed Standard do not contribute to the understanding of the proposed Standard e.g. cash, cash equivalents, cash flow. We recommend that only definitions that are relevant to this particular proposed Standard be included therein.

In addition, we believe the following definitions should be included in the proposed Standard:

- a definition on active market
- amortisation as part of the definition of depreciation.

The definition on *useful life of property, plant and equipment* should be amended to cover all assets being addressed by the proposed Standard.

Demarcation between depreciation and impairment

Further clarity may be needed on the demarcation line between impairment and depreciation for practical application. Paragraph 19 and 52 requires an assessment at each reporting date whether there is an indication that an asset may be impaired. Paragraph 47 requires an impairment loss to be recognised immediately (from paragraph 26, it is presumed that this will be at the reporting date). Paragraph 50 requires that after the recognition of an impairment loss, the depreciation (amortization) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Potential anomalies in application

A strict application of the definitions and scope could lead to anomalies. For example, a computer in a government business enterprise and a computer used in a school performing roughly similar functions would be subject to different considerations with regards to impairment. Such anomalies could support a case for a single Standard that does not distinguish assets on the basis of whether or not it is cash generating.

Application of the proposed Standard

There may be situations where it would be difficult to determine the recoverable service amount for individual non-cash generating assets. In such instances, we would support the adoption of the principal where impairment is assessed on a group of assets to be referred to as non-cash generating unit or service generating unit. The concept of recognising and measurement of impairment on a cash generating unit and/or corporate assets as defined in IAS 36 *Impairment of Assets* should be considered for incorporation in this proposed Standard. This would provide guidance on how to assess and recognise impairment in instances where it is not feasible to determine recoverable service amount for individual assets.

Further support for this approach is provided in IPSAS 17 *Property, Plant and Equipment* where revaluation increases and decreases of individual assets within a class of assets are

offset against one another within that class but must not be offset in respect of assets in different classes.

Editorial matters

Consistent reference should be made to recoverable **service** amount, where extracted from IAS 16 *Property, Plant and Equipment*.

Value-in-use of a non-cash generating asset is defined as the present value of the asset's remaining service potential. The wording implies that future cash flows have been discounted in the calculation, which is not consistent with the suggested approaches of the proposed Standard. We suggest that the wording be changed to "current value" or "fair value".



FAR is the institute for the accountancy profession in Sweden

The Technical Director
Public Sector Committee
545 Fifth Avenue, 14th Floor
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USA

28 January 2004

ED 23 Impairment of Assets

FAR, the institute for the accountancy profession in Sweden, has the pleasure to submit the following comments on the exposure draft concerning *Impairment of Assets* within the public sector (ED 23).

FAR is supportive of the implementation of ED 23 and the fact that it reflects the same structure as in IAS 36. However, in order to increase the acceptance and compliance of the final version we see a need for strengthening the parts concerning the external and internal indicators. We find that many public sector entities may have severe problems handling such a detailed and disciplined regulation, due to several factors such as lack of historical data, lack of supporting systems, lack of proper training etc. In order to further promote compliance it might be helpful to have the more pragmatic steps described in more detail.

Yours sincerely,

Gunilla Werner Carlsson
Chairman, Public Sector Reference Group

Dan Brännström
Secretary General

(NBAA)**THE NATIONAL BOARD OF ACCOUNTANTS AND AUDITORS****TANZANIA**

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Date: 3rd December 2003

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REF: COMMENTS ON EXPOSURE DRAFT – IMPAIRMENT OF ASSETS

The Tanzania's National Board of Accountants and Auditors (NBAA) Public Sector Committee has gone through the exposure draft and has the following comments to make:

Comments on specific matters**Matter (a)**

The committee recommends the proposed scope of the standard to include agriculture assets, goodwill and other identifiable intangible assets not explicitly in paragraph 1 of the ED

Matter (b)

The committee recommends the definition to be included in the standard as it is.

Matters (c) to (g)

The committee concurs with the Exposure draft proposals

Matter (h)

The 3 approaches to determine value in use as set out in paragraph 37 to 41 should be used as described in the ED.

Matter (i)

The committee accepts the proposal, however, more examples need to be developed to support the standard.

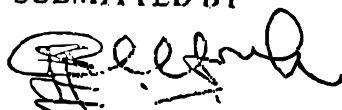
Matters (j) to (m)

The Committee on behalf of the profession in Tanzania, recommends the proposals as given.

Generals comment

The committee commends the IFAC Public Sector Committee for its efforts in coming up with the exposure draft on Impairment of Assets as a proposed International Public Sector Accounting standard.

SUBMITTED BY



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28 January 2004

Dear Sir

**Exposure Draft 23: Proposed International Public Sector Accounting Standard
'Impairment of Assets'**

I am writing on behalf of the Public Sector and Not-for-profit Committee (a Committee of the Accounting Standards Board) with comments on the above exposure draft.

As you know we are in the process of issuing an interpretation, for public benefit entities, of the ASB's 'Statement of Principles for Financial Reporting', which includes consideration of service potential and the possible implications for impairment of assets used for service delivery. This letter confines itself to the major issues that our Committee believes may require further consideration in light of its own work considering the interpretation of the ASB's 'Statement of Principles'.

Proposal (a)iv Scope of the Exposure Draft

We are concerned that the proposed standard intends to exclude non-cash generating property, plant and equipment measured at fair value from its scope. This would result in the majority of UK public sector assets being excluded from the proposed standard if the UK public sector were to adopt IPSASs.

Paragraph 7 of the ED does not require an impairment test of non-cash generating assets that are carried at fair value as the frequency of valuation ensures any impairment would be incorporated in the valuation. However this could apply equally in respect of cash-generating assets held at fair value or current value. We do not view the revaluation process as negating the need for

impairment testing. Both the UK FRS 11 'Impairment of Fixed Assets and Goodwill' and IAS 36 'Impairment of Assets' require all fixed assets to be tested for impairment where there is an indicator of impairment irrespective of how they are valued. We suggest that the proposed Standard can and should include all property, plant and equipment irrespective of its valuation basis.

Proposal (b) definition of cash generating assets

The ED defines cash generating assets as those held by public sector entities to generate a commercial rate of return – but there is no further explanation of what constitutes a commercial rate of return. Such assets should be tested for impairment in accordance with IAS 36 'Impairment of Assets' therefore it would seem sensible for the key attribute to be significant cash inflows or the aim to be profit making (but not specify the level) rather than a commercial rate of return.

Proposal (d) Identifying an asset that may be impaired

The ED proposes to estimate an asset's recoverable service amount when an indicator of impairment is present at the reporting date. We welcome the recoverable amount test which is consistent with the measurement basis set out in the ASB's 'Statement of Principles'.

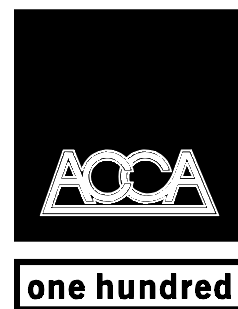
Proposal (f)i Indications of impairment

The ED sets out the minimum indicators to consider when assessing whether an asset may be impaired including the cessation of demand or need for services provided by the asset. In considering the interpretation of the ASB's 'Statement of Principles' our Committee took the view that a decline in demand for the services provided by a non-cash generating asset might indicate that the asset was impaired. This is because the service potential of the asset - being defined as the ability to be utilised to provide expected goods or services ie it fulfils a need or want - has reduced and the value in use of a non-cash generating asset would generally be based on its service potential. While the ED recognises a significant long term decline may be an indicator, we suggest this should be included in the minimum set of indicators identified in paragraph 20.

We would be pleased to expand on these comments if that would be helpful to the Public Sector Committee.

Yours faithfully

Duncan Russell
Secretary to the Public Sector and Not-for-profit Committee



Consultation Response

IMPAIRMENT OF ASSETS – EXPOSURE DRAFT 23

IFAC Public Sector Committee

Comments from ACCA

January 2004



ACCA is the largest and fastest-growing international accountancy body.

Over 300,000 students and members in 160 countries are served by more than 70 staffed offices and other centres.

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Executive Summary

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to provide comments to the IFAC Public sector Committee on its Exposure Draft on *Impairment of Assets* (the Exposure Draft). These comments have been developed with our Public Sector Technical Issues Committee, a group of experienced accountants who work in the public sector. We have also consulted a range of our public sector members across the globe.

We recognise that the transfer of concepts, definitions and approaches developed for financial reporting in the private sector is difficult to apply in the public sector setting. This is especially problematic where assets are not expected to be a source of revenue for the entity which controls them and may indeed be associated with obligations for the assets to be maintained. As a result, controlling a public sector asset may result in a financial outflow of resources from the entity; a marked contrast to the position in the private sector.

Some public sector entities have the objective of making a commercial rate of return on their assets, while other entities do not. We believe that this distinction can usually only be made at the level of the entity rather than, as the Exposure Draft does, at the level of the particular assets which are controlled.

For most public sector entities which hold assets to fulfil their obligation to provide a public service, it is the expected extent of this service potential which should indicate whether or not an impairment has taken place. Similarly, it is the level of service expected to be provided and the estimated length of the useful life of an asset (or its available alternative) which will be central to the calculation of the degree of impairment.

The authors of the Exposure Draft do not appear to have considered the implications of changes to the assets' useful life if they are to be replaced or restored. The Exposure Draft does not consider the need for planned maintenance which has not actually been undertaken, to be recognised as an expense in the statement of financial performance. We believe that this would provide valuable information on the quality of the entity's management of its assets for users of general purpose financial reports.

Detailed Comments

INTRODUCTION

1. The main problems we have with this Exposure Draft arise from the attempt to apply in the public sector concepts, definitions and approaches developed for the private sector. Unfortunately, we believe that the transfer of these concepts to the very different financial environment of the public sector may not in reality be practical. As a minimum, this transfer requires more thought and clarification than is provided in the Exposure Draft.

THE DEFINITION OF AN ASSET

2. The Exposure Draft builds on the definition of assets which the IFAC Public Sector Committee has previously developed. This extends the definition of an asset used by the International Accounting Standards Board (IASB), so that in addition to assets being resources "from which future economic benefits are expected to flow to the entity", the alternative of "service potential" which is "expected to flow to the entity" is added.
3. This extension of the definition of an asset appears to have at least two problems. Estimating the service potential which may flow to the entity is far less objective than estimating the future economic benefits which may flow to it. In addition, it is not clear that the future service potential will actually flow to the entity. The direct beneficiaries will be those who are in receipt of the services provided by the entity. The entity will only benefit indirectly through the achievement of its objectives. This is recognised at paragraph 16 of the Exposure Draft.

4. The financial implications of controlling assets in the public sector may, however, be conceived to be the opposite of the implications of controlling assets by a private sector entity or other entities, whose main objective is to generate a commercial rate of return. In the private sector the control of an asset brings with it the expectation of a future income stream from the asset. This is what is meant by “future economic benefits”. In contrast, in the public sector, the control of an asset may often bring with it the obligation to undertake future expenditure without the practical possibility that the asset can be sold. For example, we may take the case of a hospital building in a country where there is a strong tradition of health services being provided free at the point of use. The control of this asset will lead to the obligation to maintain the building without the realistic option of being able to sell it. Thus, for the entity which controls this asset, the asset represents a future expenditure stream, in cash flow terms at least; the opposite of “future economic benefits”.

RECOVERABLE SERVICE AMOUNT

5. The phrase “recoverable service amount” should be replaced throughout the Exposure Draft with the phrase “service potential”. The current phrase is suggestive of economic resources or cash that the entity may gain as a result of its control of the asset.

THE OBJECTIVE OF AN ASSET

6. The Exposure Draft states that if assets are held with the objective of generating a commercial rate of return then the methods outlined in International Accounting Standard (IAS) 36 should be used for determining any impairment. The methods outlined in the Exposure Draft should be used for other assets. ACCA, however, considers this distinction may not always be amenable to a clear objective decision. Thus, we consider that the distinction between Government Business Enterprises (GBEs) and other public sector entities is to be preferred.
7. We believe that there is a clear and objective distinction between GBEs and other public sector organisations which has a significant effect on the purposes of their financial statements. For GBEs the key objective of their financial statements is to report the surplus (or deficit) for the period. In contrast, the objective of the financial statements of other public sector organisations is to report the cost of the service which has been provided. In the latter case the allocation of the historic cost of the asset should take precedence for the valuation of an asset. The market value will usually not be relevant, as selling the asset will not be considered as a significant option. In addition, value in use for such an asset is difficult to estimate with any degree of precision or confidence.
8. We believe that there are significant problems if the accounting treatment of an asset is determined on the basis of the objective for which the particular asset is held rather than the objective of the reporting entity. In general, in the public sector, assets are held to provide a service rather than to generate cash flows or a commercial rate of return.

9. The definition of a cash-generating asset is one held “to generate a commercial rate of return”. In paragraph C13 this definition is relaxed for licences and other intangible assets, with the suggestion that these “often arise in a cash-generating context”. We believe that the distinction can usually be made more easily between those entities whose objectives include that of making a commercial rate of return on their assets and those which do not. This would ensure that a clear distinction was made between assets used “to generate a commercial rate of return” and those which do not, but may give rise to cash income. An exception to this would apply, however, if an entity had a unit or section with control of clearly defined assets, if this unit or section had an objective of making a commercial rate of return.

THE NATURE OF CASH FLOWS

10. In many cases any cash flow may be more in the nature of taxation, rather than a charge for a service. Changes in the level of future cash flows can be made on the basis of policy rather than demand for the service. Thus for example, in the UK, television licenses and charges for medicines prescribed by a doctor are more in the nature of a tax rather than a charge for the service and are set on the basis of Government policy.
11. We also consider that there is a complete spectrum of practice between assets with no associated cash flow, which are provided at cost, and those assets with an estimated future cash flow, which will more than cover their historic cost and any associated maintenance and staff costs. The point at which an asset may be considered to be held with the objective of generating net cash flows will usually be hard to define and may be largely arbitrary.

12. In addition, some assets will have multiple uses, with separate future cash flows associated with each use. Some of these uses may be cash generating, others may have little or no expected future cash flows associated with them. With these assets allocating costs between the uses may be difficult and will increase the subjectivity of the accounts (and the potential for manipulation).

DEFINITION OF A GOVERNMENT BUSINESS ENTERPRISE

13. The definition of a GBE should depend on the objective of the entity rather than the financial outcome of its activities. Thus section (d) of the definition (paragraph 13 of the Exposure Draft) should be deleted and a new characteristic (a) should be added as follows:

"(a) the objective of the entity includes that of generating a commercial rate of return on its assets".

IDENTIFYING AN ASSET WHICH MAY BE IMPAIRED

14. The black letter writing in paragraphs 19 and 20 is not particularly clear or easy to understand. We believe that a public sector asset will be impaired if its service potential over the course of its expected useful life is significantly reduced. This may occur due to:
- a significant reduction in the expected level of service which the asset is utilised to provide (arising from social, political, policy, technological, environmental or regulatory changes)
 - a significant reduction in the useful life of the asset which results in an associated reduction in the total level of service which the asset is utilised to provide over its expected useful life
 - physical damage to the asset which results in a significant reduction in its ability to contribute to the provision of the service for which it is being utilised
- and/or
- changes in technology which mean that the service potential of the asset can be provided significantly more economically by other more advanced assets.
15. In the public sector, services are not necessarily produced as a result of public demand or, indeed, need (paragraph 20(a)). The level of service provided by an entity to which the asset contributes is determined largely by political decisions, whose impact is often transmitted by the level of budgetary support provided to the entity. An asset may be considered to be impaired if the level of service provided by the entity is significantly reduced as well as if the service is ceased.

16. Paragraphs 20(b), 20(d) and 22 of the Exposure Draft should make clear that the “adverse effect on the entity” is one that will result in a significant long-term reduction in the level of service provided by the entity. The result of this will be an impairment to the assets which the entity uses to provide this service. There may be other changes which have an “adverse effect on the entity” and its financial circumstances which do not, however, have a detrimental effect on the level of service provided by the entity through using the asset.
17. The suggestion in paragraph 21(a) that a significant decline in the market value of an asset may be an indicator of impairment is not consistent with the view at the end of paragraph 30 that the selling price of a public sector asset is not a good estimate of its value in use.
18. The Exposure Draft should provide an example of the timescales which are indicated by the terms “long-term” (paragraph 22) and “near future” (paragraph 23). Presumably “long-term” in this context means over the expected life of an asset. We are not sure that the condition “in the near future” adds anything to the meaning of paragraph 23. The question should rather be whether the construction should be resumed, not whether this is expected to be “in the near future” or at a later date.
19. One indicator of impairment could be that alternative assets are now available which are significantly less expensive, but are able to contribute to the same quality of service. The first example in Appendix B suggests that this would be appropriate with a computer that costs a tenth of the original assets, but in this case this is linked to a reduced demand for the computer. The Exposure Draft does not explain whether a significant decline in the replacement cost of an asset (which is particularly common with computer technology) would by itself be considered an indicator of impairment.

ESTIMATING THE IMPAIRMENT OF AN ASSET

20. In the private sector, the estimation of the impairment of an asset is relatively straightforward. It clearly depends on an adjustment to the estimate of the value of the future cash flow which will flow to the enterprise as a result of its control of the asset.
21. In the public sector, any impairment loss is much more difficult to quantify in financial terms. The decline in the utility of an asset to the entity has to be based on the future services the provision to which the assets will contribute. As a result, the Exposure Draft has to use an estimate of the current cost of the service potential of the asset as a proxy for its value in use or, as the Exposure Draft puts it "the present value of the asset's remaining service potential" (paragraph 36). Unlike in the private sector, the market value of the asset cannot be used as an estimate of its value in use as this "is likely to be greater than its net selling price" (paragraph 30).
22. The Exposure Draft defines the value in use of a non-cash-generating asset as "the present value of the asset's remaining service potential" (paragraph 13). Three methods of estimating this value are provided in the Exposure Draft, which all relate to the current cost of obtaining the asset (paragraphs 37-41). The problem is that if the selling price of an asset is not likely to be a reasonable estimate of its value in use then there is equally no reason why the cost price of an asset should provide a more accurate estimate of its value to the entity.

DEPRECIATED REPLACEMENT COST

23. The methodology for calculating the depreciated replacement cost of an asset (paragraphs 38-39 and Appendix B examples 1-3) appears to ignore the fact that the existing useful life of an asset may not be the same as the life of its replacement. This difference in asset lives may be taken into account by a two-stage process described below.
24. The annual value of the service potential of an asset may be estimated by dividing an estimate of its replacement cost by an estimate of the useful life of the replaced asset (although note the problem of equating the value in use of an asset with its cost in paragraph 22).
25. An estimate of the value in use of the original asset can then be calculated by multiplying this annual value of the service potential of the asset by the expected remaining life of the original asset.
26. In example 4, on the restoration cost approach, the Exposure Draft includes the assumption that the "restoration will not affect the useful life of the asset". This assumption is not re-stated in the explanation for example 5. No allowance is however, made for any effect the restoration may have on the useful life of the asset within the calculation of impairment in this example. In addition, in example 5, the assumption is made that "all the restoration costs are capitalizable". The reason for this assumption and its implications are not explained in the Exposure Draft.
27. The problem of the replacement or restoration of an asset changing its useful life is not taken into consideration in either of the two examples of the service units approach provided in the Exposure Draft.

RECOGNITION OF AN IMPAIRMENT LOSS

28. The Exposure Draft indicates that an impairment loss (or its reversal – paragraph 62) “should be recognised as an expense in the statement of financial performance immediately” (paragraph 47). No explanation is provided, however, for the adoption of this approach. Depending on the circumstances, it may be more appropriate to take this adjustment direct to the balance sheet.

REDUCTION IN SERVICE POTENTIAL

29. Appendix A to the Exposure Draft provides examples of reduction in use of an asset due to a fall in demand (example (e)) and increased maintenance costs (example (h)). There may also be circumstances where the service potential of an asset is reduced and these two circumstances do not apply, for example, where the estimate of the useful life of the asset or the level of service it is capable of providing is less than the original expectations.

PROVISIONS FOR PLANNED MAINTENANCE NOT UNDERTAKEN

30. The importance attached to maintaining public sector capital assets has increased in recent years, at least in the UK. This is because there was a failure to maintain adequately the public sector infrastructure. This has resulted in a significant backlog of maintenance expenditure¹. There are also current or developing problems with funding the necessary investment in the infrastructure for rail travel, water services and waste disposal. This backlog maintenance was not identified despite the use of private sector-style accrual based financial reporting in local government and the health service.
31. This suggests that governments need to be clearly held to account for this aspect of the management of public services, and that public sector financial statements should clearly show the value of any work not undertaken, or which has been postponed, which may be considered necessary to maintain adequately the asset base of the organisation. Thus provisions should be included in the accounts for any maintenance which has not been undertaken as planned (certainly in the case of impaired assets in need of repair or maintenance). These provisions should be charged as an expense in the statement of financial performance of the entity concerned.

¹ Thus for example, the Government has estimated that there is backlog of approximately £19 billions for public housing and £7 billions for major roads.

EXCLUSION OF SOME ASSETS MEASURED AT FAIR VALUE

32. The exclusion of non-cash-generating property, plant and equipment measured at fair value from the scope of the proposed standard would result in the majority of UK public sector assets being excluded from its scope. The statement made in paragraph 7 of the Exposure Draft that the regularity of valuation compensates for the lack of an applicable impairment standard could be equally made in respect of cash-generating assets held at fair value, yet both IAS 36 (and Financial Reporting Standard (FRS) 11 in the UK) require all fixed assets to be tested for impairment, irrespective of how they are valued. Clearly, therefore, the IASB and the UK Accounting Standards Board (ASB) do not view the revaluation process as negating the need for impairment testing. Although the valuation process may ensure that the carrying value does not exceed the recoverable amount of the asset, it will not be possible to distinguish between impairments due to consumption of economic benefits and impairments due to changing prices. This will decide whether the impairment will be recognised in the income statement or the balance sheet.

Answers to 'Questions for Respondents'

COMMENTS ON THE PARTICULAR QUESTIONS RAISED IN THE DISCUSSION PAPER

(a) The proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of the Exposure Draft.

33. ACCA has reservations about the extension of the scope of the Exposure Draft to identifiable intangible assets. We believe that the treatment of such assets (for example the right to tax and natural resources) requires further consideration and will depend in part on the outcome of the IFAC Public Sector Committee's project to develop International Public Sector Accounting Standard (IPSAS) on non-exchange revenue.

(b) The proposal to define cash-generating assets as assets held by:

- (i) Government Business Enterprises (GBEs); and*
- (ii) public sector entities other than GBEs to generate a commercial rate of return (paragraph 13).*

34. ACCA considers that whether or not assets are considered to be cash generating should be determined by the objectives of the entity which controls them. The Exposure Draft considers that all assets controlled by a GBE are cash generating, even if the entity concerned does not have as its prime objective the generation of a commercial rate of return. In addition, the nature of other public sector assets is to be determined by the objective of holding the asset rather than by the objective of the asset. We

have commented further on this aspect in paragraphs 6 – 9 above.

- (c) The proposal to assess at each reporting date whether there is an indicator that an asset may be impaired. Paragraph 20 identifies a minimum set of indicators, but the list is not exhaustive.*
35. The proposal to require entities to assess whether any of their assets have been impaired should be restricted to significant assets whose impairment is likely to have a material effect on the overall financial performance of the entity or at least a segment, the financial results of which are separately reported. This should ensure that this proposal is cost effective.
- (d) The proposal to estimate an asset's recoverable service amount when an indicator of impairment is present at the reporting date (paragraph 19).*
36. Subject to the above comment, we consider that this proposal is reasonable. We do have a number of criticisms of the methods described in the Exposure Draft to undertake this task; these are included in the main body of our response.
- (e) The proposal to exclude the decline in market value from the list of minimum indicators set out in black letter in paragraph 20, but to indicate in commentary that it may be an indicator (paragraph 21).*
37. We agree with this proposal and support the view that market values are usually a poor indicator of the value in use of a public sector asset.

(f) Whether the Standard should include:

(i) a reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by paragraph 20; and

(ii) an increase in demand or in need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified by paragraph 53.

38. We consider that a significant reduction in the level of use of an asset (for whatever reason) over the expected useful life of the asset should be included as an indicator of impairment of an asset (and similarly for a significant increase in use of an asset).

(g) The proposal to measure the value in use of a non-cash-generating asset using the depreciated replacement cost, restoration cost or service units approaches as appropriate (paragraph 36).

39. We have commented in the main body of our response on our criticisms of the methods outlined in the Exposure Draft to calculate the value in use of an asset.

(h) Whether the three approaches to determination of value in use set out in paragraphs 37 to 41 are separate approaches as in the Exposure Draft, or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches.

40. We do not consider that the implications of these alternative views are significant.

(i) The proposal to recognise an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset's recoverable service amount is less than its carrying amount (paragraphs 45 and 47).

41. We believe that the cause of the impairment should affect the way that an impairment loss is recognised. Thus it will not always be appropriate to recognise the whole of the loss in the statement of financial performance for the current period. See also paragraph 28 above in our main response.

(j) The proposal to assess at each reporting date whether there is an indicator that an impairment loss recognised for an asset in prior years may no longer exist or may have decreased. Paragraph 53 identifies a minimum set of indicators, but the list is not exhaustive.

42. Our concerns over this paragraph correspond to those we have for paragraph 20 of the Exposure Draft, which are outlined in our response to question (c) above and in paragraph 14 of the main body of our response.

(k) The proposal to estimate an asset's recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 52).

43. Our concerns over this paragraph correspond to those we have for paragraph 19 of the Exposure Draft, which are outlined in paragraph 14 of the main body of our response.

- (l) The proposal to recognise a reversal of an impairment loss if, and only if, there has been a change in estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised, and increase the asset's carrying amount to its recoverable service amount subject to the ceiling set in paragraph 61 (paragraphs 58, 61 and 62).*
44. We agree with this proposal.
- (m) The proposal to make disclosures as set out in paragraphs 65 and 68 –70.*
45. Subject to our previous comments, we agree with the disclosure proposals included in the Exposure Draft.

UK ACCA COMMENTS ED 23 - TECH-CDR-340.DOC

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The Association of Chartered Certified Accountants

CIPFA RESPONSE TO IFAC PUBLIC SECTOR COMMITTEE EXPOSURE DRAFT 23 IMPAIRMENT OF ASSETS

January 2004



CIPFA is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public sector. It is responsible for the education and training of professional accountants and for their regulations through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA's members work (often at the most senior level) in public service bodies, in the national audit agencies and major accountancy firms. They are respected throughout for their high technical and ethical standards, and professional integrity. CIPFA also provides a range of high quality advisory, information and training and consultancy services to public service organisations. As such, CIPFA is the leading independent commentator on managing and accounting for public money.

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CIPFA RESPONSE TO IFAC PUBLIC SECTOR COMMITTEE EXPOSURE DRAFT 23 IMPAIRMENT OF ASSETS

1. INTRODUCTION

- 1.1. CIPFA welcomes the opportunity to comment on ED 23 *Impairment of assets*. Applying impairment rules in the public sector to non-cash generating assets is a very difficult area and therefore it is welcome to have an exposure draft, which makes very good progress towards addressing this issue. The exposure draft has been reviewed by members of the CIPFA Secretariat and the Accounting and Auditing Standards Panel. The comments made have been approved by the Accounting and Auditing Standards Panel. CIPFA would like to offer some general comments on the ED and then comment on the questions set out in the exposure draft. Some further comments, primarily in relation to the examples contained in Appendix B, are set out in section 4.

2. GENERAL COMMENTS

- 2.1. In CIPFA's view, the exposure draft makes very good progress in a notoriously difficult and challenging area. However CIPFA has two key areas of concern. The first relates to the scope of the ED and the second relates to the use of pure Net Selling Price (NSP) for non-cash-generating assets in the determination of recoverable amount.
- 2.2. The exclusion of non-cash generating property, plant and equipment (PPE) measured at fair value from the scope of the proposed standard does not appear justifiable. The UK public sector has no immediate plans to adopt IPSASs, but – if it did – this would result in the majority of UK public sector assets being excluded from the proposed standard. This will also apply to entities with accounting policies for property, plant and equipment under the allowed alternative treatment under IPSAS17, *Property, Plant and Equipment*.
- 2.3. The rationale for excluding fair value PPE is not particularly well made in the ED. The statement made in paragraph 7 of the ED that the regularity of valuation compensates for the lack of an applicable impairment standard could be equally made in respect of cash-generating assets held at fair value or current value, yet both IAS 36 and FRS 11 in the UK require all fixed assets to be tested for impairment irrespective of how they are valued. Clearly therefore the IASB and the UK ASB do not view the revaluation process as negating the need for impairment testing. CIPFA is of the view that the valuation process does not replace impairment testing for non-cash-generating fair value PPE, anymore than it does for cash-generating fair value PPE.

- 2.4. It is CIPFA's opinion that the proposed Standard can and should include all property, plant and equipment irrespective of whether it is held at historic cost or valued under the allowed alternative treatment.
- 2.5. The ED does not address the issue of whether Net Selling Price (NSP), referred to in UK standards as Net Realisable Value (NRV), should be at the best possible price taking account of alternative uses where feasible, or based on the asset continuing in its existing use. CIPFA has long held the belief that the appropriate NSP for non-cash-generating assets public sector assets is NSP in existing use. This is what is required by the Code of Practice on Local Authority Accounting in the United Kingdom.

3. PARTICULAR ISSUES ON WHICH COMMENTS WERE INVITED BY IFAC PSC

Specific matter for comment (a)

3.1. The proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of the Exposure Draft.

- 3.1.1. CIPFA is satisfied with the scope of the proposed Standard with the exception of the exclusion of non-cash generating property, plant and equipment (PPE) measured at fair value. In CIPFA's opinion this exclusion is not justified and will result in the majority of tangible assets within the UK public sector being excluded from the proposed Standard. This issue is further discussed under General Comments in paragraphs 2.1 to 2.4.

Specific matter for comment (b)

3.2. The proposal to define cash-generating assets as assets held by: (i) Government Business Enterprises (GBEs); and (ii) public sector entities other than GBEs to generate a commercial rate of return.

- 3.2.1. CIPFA is satisfied with the definition of cash-generating assets, which is consistent with the UK Resource Accounting Manual.

Specific matter for comment (c)

- 3.3. The proposal to assess at each reporting date whether there is an indicator that an asset may be impaired. Paragraph 20 identifies a minimum set of indicators but the list is not exhaustive.**

3.3.1. CIPFA agrees with the proposal, which is consistent with the both the international standard on impairment and the UK standard on impairment.

Specific matter for comment (d)

- 3.4. The proposal to estimate an asset's recoverable service amount when an indicator of impairment is present at the reporting date.**

3.4.1. CIPFA agrees that having identified an indicator of impairment, it is entirely appropriate that this should be followed up by the entity estimating the recoverable service amount of the asset or assets in question.

Specific matter for comment (e)

- 3.5. The proposal to exclude the decline in market value from the list of minimum indicators set out in black letter in paragraph 20 but indicate in commentary that it might be an indicator.**

3.5.1. CIPFA agrees with the underlying rationale for excluding market value from the list of minimum indicators. However, in terms of developing a robust model for impairment, it does not seem appropriate to exclude from the list, a change in one of the components used to determine recoverable amount. We have previously highlighted CIPFA's view that NSP should be modified to NSP in existing use. In a public sector context, year-on-year changes in Market Value in Existing Use are unlikely to be significant.

Specific matter for comment (f)

- 3.6. Whether the Standard should include:**

(i) A reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by paragraph 20.

3.6.1. CIPFA considers that a reduction in demand or need for services which is not expected to be of a short-term nature may lead to an impairment of the relevant assets. Therefore reduction in demand or need for services provided should be

included in the minimum set of indicators identified in paragraph 20. However CIPFA does accept that there will be difficulties in practice in applying this indicator, particularly in assessing whether the decline in demand is short term. This will be an area for management to apply judgement. Given this potential area of difficulty it may be useful to emphasise the need for the decline in demand to be 'significant', over the need for it to be 'long-term'.

(ii) An increase in demand or need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified by paragraph 53.

- 3.6.2. CIPFA is of the opinion that if reduction in demand or need for services is an indicator of impairment, then logically the increase in demand or need for services from a previously reduced level must be a potential indicator of the reversal of an impairment loss. A subsequent impairment reversal review may result in no reversal being recognised, however, it is appropriate to include the indicator to force the review.

Specific matter for comment (g)

3.7. The proposal to measure the value in use of a non-cash-generating asset using the depreciated replacement cost, restoration cost or service units approach as appropriate.

- 3.7.1. CIPFA is of the opinion that the primary measure of the value in use of a non-cash-generating asset should be market value in existing use. This is consistent with extant CIPFA guidance in relation to local authority operational assets. Only where it is not possible to obtain a market value in existing use, should depreciated replacement cost, restoration cost or the service units approach be used. Depreciated replacement cost is currently used in the UK public sector to value specialised properties for which there is no active and liquid market.

Specific matter for comment (h)

3.8. Whether the three approaches to determination of value in use set out in paragraphs 37 to 41 are separate approaches as in the ED, or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches.

- 3.8.1. Whilst CIPFA does not consider this to be a crucial issue, it is our opinion that depreciated replacement cost is a broad approach that encompasses the other two approaches. The service units approach is an alternative method of taking account of reduced service potential and the restoration cost approach is an allowance for physical deterioration and therefore both are part of a depreciated replacement cost approach.

Specific matter for comment (i)

3.9. The proposal to recognise an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset's recoverable service amount is less than its carrying amount (paragraphs 45 and 47).

- 3.9.1. CIPFA agrees fully with this proposal. However if the PSC decides to widen the scope of the standard to include fair value or current value assets then paragraph 47 would need to be amended in line with IAS 36 to require the impairment loss on a revalued asset to be recognised directly against any revaluation surplus to the extent that the impairment loss does not exceed the revaluation surplus.

Specific matter for comment (j)

3.10. The proposal to assess at each reporting date whether there is an indicator that an impairment loss recognised for an asset in prior years may no longer exist or may have decreased. Paragraph 53 identifies a minimum set of indicators, but the list is not exhaustive.

- 3.10.1. CIPFA agrees fully with this proposal, which is consistent with both IAS 36 and the UK standard on impairment.

Specific matter for comment (k)

3.11. The proposal to estimate an asset's recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 52).

3.11.1. CIPFA agrees fully with this proposal.

Specific matter for comment (l)

3.12. The proposal to recognise a reversal of an impairment loss if, and only if, there has been a change in estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised, and increase the asset's carrying amount to its recoverable service amount subject to the ceiling set in paragraph 61 (paragraphs 58, 61 and 62).

3.12.1. CIPFA agrees fully with this proposal.

3.13. The proposal to make disclosures as set out in paragraphs 65 and 68 – 70.

3.13.1. CIPFA agrees with these proposals.

4. FURTHER COMMENTS

4.1. Examples in Appendix B

4.1.1. CIPFA has some concerns about examples 4 and 6 in Appendix B. Example 4 demonstrates the restoration cost approach and example 6 demonstrates the service units approach

4.1.2. Our concerns in relation to Example 4 can be summarised as follows:

- Common sense would indicate that if the bus were unusable then the value in use would be zero although it is likely that there would be a net selling price for the bus. The example should therefore clearly explain why this is not the case.
- The logical conclusion of this example would appear to be that a breakdown of the bus or replacement of a significant component would also indicate a need for an impairment test. Both eventualities would also render the bus unusable but neither would usually result in an impairment being recognised, as both are temporary and the 40,000 would simply be expensed. There is an argument that the scenario set out in the example is also only temporary and therefore there is little point in recognising an impairment, which is likely to reverse as soon as the restoration is

complete. Presumably it would only be necessary to recognise an impairment of the bus if the restoration was still outstanding at the period end. This could be made clearer in the example.

- The example needs to address the issue of the impairment being reversed once the restoration is complete.

- 4.1.3. The application of the service units approach in Example 6 to a building does not seem appropriate. The assumption that the depreciated replacement cost of a 16 storey building is $16/20^{\text{th}}$ of a 20 storey building seems overly simplistic. A more appropriate approach would be to ascertain the replacement cost of a 16 storey building.

4.2. Consistency between indicators of impairment and indicators of reversal

- 4.2.1. Paragraph 54 of the ED states that the indicators of reversal of an impairment in paragraph 53, mirror the indicators of impairment in paragraph 20. However, although physical damage is included as an indicator of impairment, making good physical damage is not included as an indicator of the reversal of an impairment. This appears inconsistent and contradicts the statement made in paragraph 54.

**IFAC PUBLIC SECTOR COMMITTEE
ED 23 IMPAIRMENT OF ASSETS**

Memorandum of comment submitted in February 2004 to the International Federation of Accountants Public Sector Committee concerning Exposure Draft 23 of an International Public Sector Accounting Standard 'Impairment of Assets'.

	Paragraphs
Introduction	1 - 2
Major issues	3 - 7
Specific issues	8 - 21

INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales welcomes the opportunity to respond to Exposure Draft 23 *Impairment of assets*, published by the IFAC Public Sector Committee in September 2003.
2. We have reviewed the draft and set out below a number of comments. We deal first with some major issues, before commenting on the specific issues referred to in the draft, and then making one detailed point.

MAJOR ISSUES

3. We are concerned that the draft does not apply to revalued assets. We accept that this simplifies the accounting for impairments and reversals of impairments as the only entry is to the statement of financial performance, so avoiding the problem of direct write-offs to the revaluation reserve. However, the policy of accounting for assets at valuation is widespread in the public sector, including most of the UK public sector. We do not therefore understand why ED 23 does not apply to revalued assets when IAS 36 does.
4. We suggest that it would be helpful for the IPSAS to include a comment to the effect that an impairment on one asset cannot be offset against an increase in value on another. This is implicit in the Exposure Draft, but could be made more explicit.
5. We welcome the worked examples and consider the examples of indicators showing where an impairment or reversal of an impairment might have taken place are very useful.

Relevance to charities

6. The UK Accounting Standards Board has recently issued a consultation document proposing to treat charities and the public sector in a similar way, on the basis that these entities are all ‘public benefit’ entities. IPSASs may therefore come to have implications for charities as a result of the convergence of UK and international financial reporting standards. We believe that there may be similar implications for charities outside the UK.
7. Because of ED 23’s potential relevance to charities, we have made charity-specific comments below where appropriate. Subject to any detailed comments below, the proposed IPSAS appears to be equally applicable to the accrual-based financial statements of charities.

SPECIFIC ISSUES

- (a) *the proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of the Exposure Draft (ED). Paragraph 1 excludes:*

- (i) *inventories;*
 - (ii) *assets arising from construction contracts;*
 - (iii) *financial assets included in the scope of International Public Sector Accounting Standard IPSAS 15 Financial Instruments: Disclosure and Presentation;*
 - (iv) *investment property that is measured at fair value under International Public Sector Accounting Standard IPSAS 16 Investment Property, and non-cash generating property, plant and equipment measured at fair value under International Public Sector Accounting Standard IPSAS 17 Property, Plant and Equipment; and*
 - (v) *other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard;*
- 8. We agree with this proposal except that, as set out in paragraph 3 above, we believe that the IPSAS should deal with revalued assets.
 - (b) *the proposal to define cash-generating assets as assets held by:*
 - (i) *Government Business Enterprises (GBEs); and*
 - (ii) *public sector entities other than GBEs to generate a commercial rate of return (paragraph 13);*
- 9. We agree with this proposal.
- 10. In relation to charities, this definition would catch fixed assets used by charities for investment or to generate a cashflow in the course of non-primary-purpose trading and fundraising activities, but would exclude fixed assets held for use primarily to deliver the public benefit that the charity is established to provide and only secondarily to support this by generating cash earnings (for example, a school, a hospital, a residential care centre, a museum or performing arts charity's hospitality facilities, or a wildlife charity's visitor-centre). This would be especially true where these earnings are less than a commercial return, perhaps merely to intended to defray overhead costs. UK standards and the Charities SORP currently allow 'service potential' to be used for measuring impairment only where the asset is not used to generate earnings at all.
 - (c) *the proposal to assess at each reporting date whether there is an indicator that an asset may be impaired. Paragraph 20 identifies a minimum set of indicators, but the list is not exhaustive;*
- 11. We agree with this proposal.
 - (d) *the proposal to estimate an asset's recoverable service amount when an indicator of impairment is present at the reporting date (paragraph 19);*
- 12. We agree with this proposal.

- (e) *the proposal to exclude the decline in market value from the list of minimum indicators set out in black letter in paragraph 20 but indicate in commentary that it may be an indicator (paragraph 21);*
- 13. We agree with this proposal.
 - (f) *whether the Standard should include:*
 - (i) *a reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by paragraph 20; and*
 - (ii) *an increase in demand or need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified by paragraph 53;*
- 14. We agree that demand for services should be included as an indicator, in line with IAS 36.
 - (g) *the proposal to measure the value in use of a non-cash generating asset using the depreciated replacement cost, restoration cost or service units approaches as appropriate (paragraph 36);*
- 15. We agree with this proposal.
 - (h) *whether the three approaches to determination of value in use set out in paragraphs 37 to 41 are separate approaches as in the ED, or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches;*
- 16. Arguably, depreciated replacement cost encompasses the other two approaches, but as we believe that it is correct to allow all three we can see no practical objection to the proposals in the ED.
 - (i) *the proposal to recognize an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset's recoverable service amount is less than its carrying amount (paragraphs 45 and 47);*
- 17. We agree with this proposal, but, as noted above, it does not apply to revalued assets.
 - (j) *the proposal to assess at each reporting date whether there is an indicator that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased. Paragraph 53 identifies a minimum set of indicators, but the list is not exhaustive;*
- 18. We agree with this proposal.
 - (k) *the proposal to estimate an asset's recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 52);*

19. We agree with this proposal.

(l) the proposal to recognize a reversal of an impairment loss if, and only if, there has been a change in estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized, and increase the asset's carrying amount to its recoverable service amount subject to the ceiling set in paragraph 61 (paragraphs 58, 61 and 62); and

20. We agree with this proposal. However, the proposal in Paragraph 62 to recognise the reversal of an impairment loss as revenue may not be possible for all or certain bodies, for example, charities, in some jurisdictions, because of strict rules about what may be treated as revenue. As, arguably, a reversal might be better shown as negative expenditure anyway - in other words as a reversal of the treatment shown in paragraph 47 - we suggest that consideration is given to allowing this treatment.

(m) the proposal to make disclosures as set out in paragraphs 65 and 68 – 70.

21. We agree with the proposed disclosures.

GOVERNMENT ORGANIZATIONS



January 30, 2004

Email: EDComments@ifac.org

The Technical Director
Public Sector Committee
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York USA 10017

Dear Technical Director:

Thank you for the opportunity to comment on Exposure Draft 23 "Impairment of Assets". Please find enclosed a detailed response to your questions.

Should you have any comments or questions please Barbara Reuther at 250 387-3975.

Yours truly,

Original signed by:

Arn van Iersel
Comptroller General

Enclosures

**Province of British Columbia
Office of the Comptroller General**

**Comments on the IFAC Public Sector Committee Exposure Draft 23 -
Impairment of Assets**

We do not support the provision that allows the reversal of previously recorded impairment losses. This could result in governments being able to manipulate the annual surplus/deficit to meet their agenda. This provision could also lead to a loss of public confidence in the government if frequent re-evaluations of assets cause swings in the governments surplus/deficit.

We do not support the annual evaluation process recommended by paragraph 19. Although theoretically desirable, the recommendation that "An entity should assess at each reporting date whether there is any indication that an asset may be impaired" is not practical or effective in practice. We feel it is appropriate only to assess value when the indicators as noted in paragraphs 20-24 become evident.

- 1) **The proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of the Exposure Draft (ED).**

Disagree. Under Canadian Public Sector Accounting Board (PSAB) Section 1000 goodwill and identifiable intangible assets are not recognized in the public accounts including those that have been purchased, developed, constructed or inherited. These items are not recognized as assets because the costs, benefits and economic value cannot be reasonably and verifiably quantified using existing methods. Agricultural lands would normally be held for scientific purposes in the public interest, usually located in populated areas where land value would fluctuate due to market conditions. Therefore the calculation of impairment based on replacement value would not be appropriate.

Given the comments in paragraph C13 of the ED where it is acknowledged that goodwill as conventionally defined is not expected to arise and that intangible assets are expected to be rare, we find it curious that goodwill and intangible assets would be included.

- 2) **The proposal to define cash-generating assets as assets held by:**
 - a) **Government Business Enterprises (GBEs); and**
 - b) **Public sector entities other the GBEs to generate a commercial rate of return (paragraph 13);**

**Province of British Columbia
Office of the Comptroller General**

- a) Agree. However the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (Section PS1300) specifies that a GBE must be a separate legal entity that can sue and be sued.
- b) Disagree. Canadian Public Sector Accounting does not allow for this exclusion. In Canada these assets must all be accounted for according to the GAAP requirements of the parent entity.

- 3) The proposal to assess at each reporting date whether there is an indicator that an asset may be impaired. Paragraph 20 identifies a minimum set of indicators, but the list is not exhaustive;

Disagree. Paragraph 19 appears to be an unnecessary duplication/expansion of Paragraph 18 and should be deleted. A required assessment at each reporting date would be onerous. We believe that the indications themselves as identified in Paragraphs 20 to 24 should lead to the estimate of the recoverable service amount. Paragraph 18 is sufficient in that it requires a formal estimate of the recoverable service amount only if indications of impairment are present. Information indicating impairment should be readily available without additional cost from financial and management reporting.

- 4) The proposal to estimate an asset's recoverable service amount when an indicator of impairment is present at the reporting date (paragraph 19);

Agree in principal. Note that this is also an indication of paragraph 18. It would be appropriate if there were indications of impairment that were significant and permanent. All proposed methods of calculating the recoverable service amounts require the determination of the replacement cost of the asset, an exercise preferably not to be undertaken unless the impairment is highly probable.

- 5) The proposal to exclude the decline in market value from the list of minimum indicators set out in black letter in paragraph 20 but indicate in commentary that it may be an indicator (paragraph 21);

Agree. The primary consideration should be the utility of the asset not the market value. The market value alone should not determine impairment and should only be considered as further evidence of impairment. Market value would not be determinable for many public sector assets or a costly and inappropriate exercise if it were the only indicator.

**Province of British Columbia
Office of the Comptroller General**

- 6) Whether the Standard should include:**
- a) A reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by paragraph 20; and**
 - b) An increase in demand or need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified by Paragraph 53;**
- a) Agree, if the Standard further stipulates that the indication can be determined with a high degree of certainty and probability of permanence.
 - b) Disagree. Canadian GAAP does not allow for the reversal of impairment losses. We support Canadian GAAP because the use of professional judgment could result in the manipulation of the surplus/deficit.
- 7) The proposal to measure the value in use of a non-cash-generating asset using the depreciated replacement cost, restoration cost or service units approaches as appropriate (paragraph 36);**

Agree. We find the proposal appropriate and agree that the calculation should concentrate on the remaining service potential of the asset. Determining the replacement value of impaired assets however could be problematic for assets developed internally or for special purpose assets purchased externally.

- 8) Whether the three approaches to determination of value in use set out in paragraphs 37 to 41 are separate approaches as in the ED, or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches;**

Disagree. We find the Restoration Cost Approach is unnecessary. It duplicates the depreciated cost approach except where it includes the cost to restore the physically damaged asset. If an asset is physically damaged it would be intuitive to include the cost of restoration in the calculation of impairment.

- 9) The proposal to recognize an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset's recoverable service amount is less than its carrying amount (paragraphs 45 and 47);**

**Province of British Columbia
Office of the Comptroller General**

Agree. Should an assets' service amount be permanently lower than the carrying amount the recognition of the impairment loss should be expensed in the statement of financial performance.

- 10) The proposal to assess at each reporting date whether there is an indicator that in impairment loss recognized for an asset in prior years may no longer exists or may have decreased. Paragraph 53 identifies a minimum set of indicators, but the list is not exhaustive;**

Disagree. Canadian GAAP does not allow for the reversal of an impairment loss. We support Canadian GAAP because the use of professional judgment could result in the manipulation of the surplus/deficit. Please refer to our comments on this subject on the first page.

- 11) The proposal to estimate an asset's recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 52);**

Disagree. Refer to #10.

- 12) The proposal to recognize a reversal of an impairment loss if, and only if, there has been a change in estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized, and increase the asset's carrying amount to its recoverable service amount subject to the ceiling set in paragraph 61 (paragraphs 58, 61 and 62); and**

Agree, although Canadian GAAP does not allow for the reversal of an impairment loss, we would agree that the reinstatement amount should not exceed the original carrying amount net of amortization. To allow otherwise would allow the recognition of profit from a non-cash generating asset. Any reversal should be recorded in the surplus/deficit section of the Statement of Financial Position.

- 13) The proposal to make disclosures as set out in paragraphs 65 and 68 - 70.**

Agree. We would like to add that in consideration of the users of the financial statements, the materiality threshold for the reversal of losses should be lower than the recognition of losses.

PROPOSED IPSAS ED 23: IMPAIRMENT OF ASSETS

A – OVERALL VIEW

Thank you for the opportunity to comment on the proposed IPSAS Exposure Draft 23: Impairment of Assets (ED 23).

In general we support ED 23 and believe that adoption of the proposed standard is in the best interests of the users of the financial statements of public sector entities. However, we have two major concerns with the standard in its present form, along with some more minor points. Our comments are documented below for your consideration.

Our two significant concerns are:

1. We noted that ED 23 explicitly excludes non-cash generating property, plant and equipment assets valued to fair value from its scope [paragraph 1(d)]. We agree with this exclusion.

However, this approach is inconsistent with IAS 36 which does not contain a similar explicit exemption for fair valued property, plant and equipment. We suggest the IFAC – PSC take up this difference with the IASB to ensure that the two standards are harmonised.

2. ED 23 makes reference to net selling price as a point of reference for calculating the impairment of assets i.e. obtainable value less the costs of disposal. This 'net' approach is inconsistent with that adopted in various IAS's, for example, where disposal costs are excluded in determining fair value under IAS 16 (or FRS-3).

B – SPECIFIC MATTERS FOR COMMENT

- (a) ***the proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of the Exposure Draft (ED). Paragraph 1 excludes:***

- (i) ***inventories;***
- (ii) ***assets arising from construction contracts;***
- (iii) ***financial assets included in the scope of International Public Sector Accounting Standard IPSAS 15 Financial Instruments: Disclosure and Presentation;***
- (iv) ***investment property that is measured at fair value under International Public Sector Accounting Standard IPSAS 16 Investment Property, and non-cash generating property, plant and equipment measured at fair value under International Public Sector Accounting Standard IPSAS 17 Property, Plant and Equipment; and***
- (v) ***other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard.***

We agree that the proposed standard should apply to all non-cash assets that are not explicitly excluded in paragraph 1.

New Zealand Treasury (NZT)

We noted that ED 23 explicitly excludes non-cash generating property, plant and equipment assets valued to fair value from its scope [paragraph 1(d)]. We agree with this exclusion.

However, this approach is inconsistent with IAS 36 which does not contain a similar explicit exemption for fair valued property, plant and equipment. We suggest the IFAC – PSC take up this difference with the IASB to ensure that the two standards are harmonised.

(b) the proposal to define cash-generating assets as assets held by:

- (i) Government Business Enterprises (GBEs); and**
- (ii) public sector entities other than GBEs to generate a commercial rate of return (paragraph 13).**

We believe that the definition of cash-generating assets should be improved because, in its present form, it could cause confusion.

In particular, the definition infers that all assets held by GBEs are cash generating, which may not be the case. It may also be inferred from the definition that GBEs do not hold assets to generate a commercial rate of return - reiterated by the definition of GBEs that refers to them operating at 'full cost recovery' which may be less than a commercial rate of return.

We recommend the adoption of the following definition to remove any ambiguity:

Cash-generating assets are all assets held to generate a commercial rate of return. This includes all assets held by Government Business Enterprises.

We also noted that the words "public sector" are not required in part (a) of the definition of cash-generating assets – there are no "private sector" GBEs as far as we are aware.

(c) the proposal to assess at each reporting date whether there is an indicator that an asset may be impaired. Paragraph 20 identifies a minimum set of indicators, but the list is not exhaustive.

We agree with the proposal.

(d) the proposal to estimate an asset's recoverable service amount when an indicator of impairment is present at the reporting date (paragraph 19).

We agree with the proposal.

(e) the proposal to exclude the decline in market value from the list of minimum indicators set out in black letter in paragraph 20 but indicate in commentary that it may be an indicator (paragraph 21).

We disagree with the proposal because, in this instance, we can not identify why there is a need to distinguish between the black and grey letter indicators.

(f) whether the Standard should include:

- (i) a reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by paragraph 20; and**

- (ii) an increase in demand or need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified by paragraph 53.**

We agree with the proposal.

- (g) the proposal to measure the value in use of a non-cash generating asset using the depreciated replacement cost, restoration cost or service units approaches as appropriate (paragraph 36).**

In general, we agree with the approach of estimating value in use for non-cash generating assets.

However, we believe that the existing valuation methods (depreciated replacement cost, restoration cost and service units) should be amalgamated to simplify the proposed standard. We question the requirement for three different methods of valuation given that each essentially evaluate value in use as the depreciated reproduction cost or replacement of the asset, whichever is lower. It is also worth considering whether the proposed standard should include a definition of depreciated replacement cost.

- (h) whether the three approaches to determination of value in use set out in paragraphs 37 to 41 are separate approaches as in the ED, or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches.**

With reference to our comments in question (g) above we believe that depreciated replacement cost (DRC) should be the over arching method to be applied when determining value in use. The restoration cost and service units approach should be incorporated into the standard as a means of estimating DRC.

- (i) the proposal to recognize an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset's recoverable service amount is less than its carrying amount (paragraphs 45 and 47).**

We agree with the proposal.

- (j) the proposal to assess at each reporting date whether there is an indicator that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased. Paragraph 53 identifies a minimum set of indicators, but the list is not exhaustive.**

We agree with the proposal.

- (k) the proposal to estimate an asset's recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 52).**

We agree with the proposal.

- (l) the proposal to recognize a reversal of an impairment loss if, and only if, there has been a change in estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized, and increase the asset's carrying amount to its recoverable service amount subject to the ceiling set in paragraph 61 (paragraphs 58, 61 and 62).**

We agree with the proposal.

(m) the proposal to make disclosures as set out in paragraphs 65 and 68 – 70.

We agree with the proposal.

C – OTHER COMMENTS

Aside from the specific comments made above we have a number of comments regarding the definitions in ED 23:

1. ED 23 makes reference to net selling price as a point of reference for calculating the impairment of assets i.e. obtainable value less the costs of disposal. This 'net' approach is inconsistent with that adopted in various IAS's, for example, where disposal costs are excluded in determining fair value under IAS 16 (or FRS-3).
2. Paragraph 13 defines "impairment loss of a non-cash-generating asset" and "value in use of a non-cash-generating asset" however, the Standard only refers to "impairment loss" and "value in use". In our view the phrase "of a non-cash-generating asset" in both these definitions is unnecessary and should be deleted.
3. By default goodwill and all other identifiable intangible assets are included in the scope of ED 23. We suggest including examples that are applicable to these assets in the proposed standard and, for consistency, we also suggest that all references to depreciation be followed, in brackets, by "amortisation". This includes the definitions of "carrying amount", "depreciation" and "impairment". We noted that IAS 36 is drafted in this way and that IAS 36 includes a footnote to highlight that, although having the same meaning, "amortisation" is generally used for intangible assets and goodwill instead of "depreciation".
4. ED 23 introduces the term 'recoverable service amount' which is virtually identical to the definition of 'recoverable amount in IAS 36. For consistency purposes the definition in ED 23 should be amended so as to align with IAS 36:

recoverable amount: is the higher of an asset's net selling price and its value in use.

4. ED 23 in its definition of 'recoverable service amount' refers to 'value in use'. The standard then provides a definition of 'value in use of a non-cash generating asset'. To enhance the linkage between the definitions the existing definition of 'value in use of a non-cash generating asset' should be replaced with:

value in use: in respect of non-cash generating assets, is the present value of the asset's remaining service potential.

This approach is consistent with IAS 36 which provides a definition for 'value in use'.

Matthew Bohun

From: JerryGutu [jerrygutu@ifac.org]
Sent: Thursday, 11 December 2003 8:43 AM
To: 'Paul Sutcliffe'
Cc: Damarys Gil
Subject: FW: Comentario ED 23

Paul,

Find below the translation of a comment for ED 23, Impairment of Assets, from Peru. Damarys Gil, the publications coordinator here interpreted the email in Spanish for me. Thanks.

Jerry.

-----Original Message-----

From: damarysgil [mailto:damarysgil@ifac.org]
Sent: Wednesday, December 10, 2003 4:28 PM
To: 'JerryGutu'
Cc: 'Julissa Guevara'
Subject: RE: Comentario ED 23

Jerry it says the following:

After having read and analyzed the exposure draft of Diffusion - Draft 23, Impairment of Assets; we are commenting the following: It is applicable to the governmental sector in our country because is in harmony with the effective countable norms.

Kind Regards,

Public accountant's office of the Nation Governing Organo of the National System of Accounting It files - Peru

-----Original Message-----

From: JerryGutu [mailto:jerrygutu@ifac.org]
Sent: Wednesday, December 10, 2003 3:16 PM
To: Damarys Gil; Julissa Guevara
Subject: FW: Comentario ED 23

Damarys and Julissa,

I would be grateful for your assistance in interpretation of the email attached from Peru. Thanks.

Jerry.

-----Original Message-----

From: lynannnn [mailto:lynannnn@ifac.org]
Sent: Wednesday, December 10, 2003 12:57 PM
To: Jerry Gutu
Cc: 'Heather G.'
Subject: FW: Comentario ED 23

I think this is regarding your ED, but I'm not sure...

-----Original Message-----

From: SUBJEFATURACPN [mailto:subjefaturacpn@mef.gob.pe]
Sent: Friday, December 05, 2003 2:37 PM
To: EDcomments@ifac.org
Subject: Comentario ED 23

De la lectura y análisis al Borrador de Difusión - Draft 23, *Desvalorización de Activos*; nos permitimos hacer el comentario siguiente: Es aplicable al sector gubernamental en nuestro país porque se encuentra en armonía con las normas contables vigentes.

Atentamente,

Contaduría Pública de la Nación

Organo Rector del Sistema Nacional de Contabilidad

Lima - Perú



EKONOMISTYRNINGSVERKET

The Technical Director
Public Sector Committee
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

Comments on ED 23 Impairment of Assets

The Swedish National Financial Management Authority appreciates the opportunity to comment on the ED 23 Impairment of Assets.

The Swedish National Financial Management Authority is the government agency responsible for financial management and development of GAAP in the Swedish central government. Full accrual accounting was introduced in 1993 and we hope that our experience will be a contribution in your work with various accounting issues.

Overall Opinion

Our overall opinion is that ED 23 is supported. Current regulations on this topic within the central government in Sweden are not very detailed, and therefore this is a Standard that can be of great help to us in our future work. It is very important though that there is a two step model. An asset should not be impaired just because the replacement cost is lower than the carrying amount. If there is no indicator that the asset may be impaired the entity should not estimate recoverable service amount.

Specific Matters for Comment

- a) When it comes to agriculture assets (IAS 41) the PSC has no equivalent standard. IPSAS 17 Property, Plant and Equipment permits agricultural assets to be valued both to historical cost and fair value. Agricultural assets must therefore be included if historical cost model is used for valuation.
- b) In principal we agree with the proposal. However it can be difficult to define which assets should be classified as cash-generating assets. In Sweden e.g. we have a full cost pricing model for certain

THE SWEDISH NATIONAL FINANCIAL MANAGEMENT AUTHORITY

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operations. Should assets in operations that have full cost pricing models be define as cash generating assets? Assets that are used by the public can be estimated to have certain serviceableness. Full cost prizing model can be used but it is nearly a monopoly situation and the public have no realistic alternative. If it is not a commercial market it can not to be a cash generating assets. The cash flow of non-generating assets can in some cases be an indicator that the assets may be impaired.

- c) If there is an indicator that an assets may be impaired. We agree that an entity should assess that an impairment test has been done.
- d) We agree that an entity should estimate recoverable service amount when an indicator of impairment is present at the reporting date. We have some apprehensions for the difficulties the agencies can face when they should estimate the value in use and the net selling price.

We believe that it is difficult to find any occasions when heritage assets should be impaired according to ED 23, even if there may be an indicator. In the standard a commentary is needed that the value in use for certain assets cannot be measured reliable because there is no replacement cost for the same service potential.

Under certain conditions it is not possible to replace the same service potential by acquiring a new asset, e.g. can the technological development make it difficult to replace a certain asset's service potential. Therefore we believe that a group of assets approach can be required when deciding if assets should be impaired.

- e) We agree that market value should not be a minimum indicator for non-cash generating assets. The result could be that a lot of assets are impaired to replacement value just because the market value has fallen. The market value is often not important because the asset should be used for generating future services for the public. If we have indicators that are not corresponding to the main purposes for holding assets within the public sector the effect would be that assets are impaired for non-eligible reasons.
- f) An entity could assert that it is not a cessation even if the need for a service is very limited. We believe that even substantial reduction on the demand or need for services should be included as a minimum set of indicators in paragraphs 20 and 53.
- g) From our point of view the depreciated replacement cost approach is the broader approach that encompasses the two other approaches. To estimate replacement cost for equivalent service potential the restoration cost and the assets actual source of resources must be taken into account, e.g. if the asset's is damaged or if the depreciated method is not corresponding to the actual performance of the asset.

We don't have any comments on i) to m). We agree that an impairment loss should be recognized when the recoverable service amount is less than its carrying amount and an entity should assess at each reporting date whether there is an indicator that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased.

Concluding Remarks

We hope the comments given will be useful in your continuing work with accounting standards. We would like to take this opportunity to express our support for the development of International Public Sector Accounting Standards.

Curt Johansson has prepared the comments given in this report.

Yours sincerely,

Bengt Anderson

Director,
Performance and Financial Management Department

curt.johansson@esv.se

Swiss Comments to the ED 23 “Impairment of Assets”

Mr. President, Members of the PSC

We would like to thank you for your kind invitation to comment on Exposure Draft (ED) 23 with regard to the impairment of assets. In addition to a few general comments, we have look at the questions outlined on pages 4 and 5 of the ED.

Overall, we support the position taken by the ED. We especially agree with the PSC in substituting cash flows for service potential as a main criterion for value determination. This proposal is in line with preliminary IPSASs that have been evaluated and shown to be useful in the Swiss context. We encourage the PSC to set a new standard based on the exposure draft presented.

Questions outlined by the PSC on pages 4 and 5 of the ED:

(a) Scope

The structure of codifications in Public Law in Switzerland is very similar to the standard setting structure followed in ED 23. We therefore agree with the proposal in the ED and we consider the list of exclusions (i to v) to be appropriate.

(b) Distinction of cash-generating assets held by GBEs and public sector entities

The exclusion of Government Business Enterprises (GBEs) from the scope of IPSAS is a general IPSAS principle.

However, in Switzerland we also have cases where public sector entities other than GBEs generate commercial returns (case b in paragraph 13). We support the logic of setting rules for these cases within IPSAS.

We consider the criterion “commercial rate of return” to be feasible, however, we expect some variations in application.

(c) Assessment of impairment indicators at each reporting date

We agree that indicators of impairment need to be assessed in preparation of each reporting, i.e. annually. Any other option would arbitrarily bias the results. This also holds true in case of a reversal.

However, for practical reasons, indicators of impairment are quite often assessed earlier in the year, when preparing the budget for the following year. The gap of a few months between budgeting and reporting should not necessitate the assessment of these indicators twice a year. We would therefore suggest replacing the phrase “at each reporting date” with “for each reporting period” in paragraph 19.

(d) Recoverable service amount as an estimate for the residual value

The concept of recoverable service amount is a careful adoption of the IAS to the specific requirements of the public sector, because the estimate cannot be based on cash flows. This also holds true in case of a reversal.

However, the practical application of the concept is more difficult, because the value in use may be difficult to calculate (please also refer to the comments under g).

(e) Exclusion of the decline in market value from the (short) list of indicators

We assume that a decline in market value in absence of *any* other indicator listed in paragraph 20 may only arise if there is an exogenous increase in supply of the asset. Under these circumstances, we consider that the asset is not impaired because the service potential is still the same. We therefore agree with the proposal to exclude it from the minimum list in paragraph 20.

We also agree with the PSC that the service potential is a feasible indicator of impairment, but is not feasible for an immediate determination of the value. We thus agree with the distinction being made between identification and measurement (please also refer to the comments under g in respect of measurement).

(f) Reduction and increase in demand

In line with the concept of service potential, any change in demand may cause impairment or a reversal of impairment. Thus, both should be included in the standard.

(g) Measuring the value of the impaired asset

We consider all three methods appropriate, taking into consideration the criteria for selecting the method as listed in paragraph 42.

As a matter of fact, the three concepts are not equally easy to implement. Whereas the restoration cost and the service unit approach shouldn't cause too many difficulties, the depreciated replacement cost approach requires a good data source and more sophisticated, theoretical considerations may also have to be taken into account, i.e. in case of a shift in technology. These difficulties will probably lead to a greater sympathy for the service unit approach.

(h) Relationship between the three approaches

While the depreciated replacement cost approach may be superior to the two other ones under theoretical considerations, from a more practical point of view the restoration cost or the service unit approach may be easier to implement. All three approaches should therefore be included in the standard, as outlined in paragraphs 37 to 41.

(i) Recognition of impairment losses

Both, definition (paragraph 45) and recognition (paragraph 47) of impairment losses, are logical and practical. The major problem is defining the level of materiality for different public sector entities (see also comments under f).

(j) Assessment of impairment indicators at each reporting date (reversal)

cf. comments under c)

(k) Recoverable service amount as an estimate for the residual value (reversal)

cf. comments under d)

(l) Ceiling value in case of reversal

The definition of a ceiling value is necessary and accurate.

(m) Disclosures

The disclosures are consistent with the general principles of the ED.

In case of any questions, please do not hesitate to contact us.

On behalf of the Swiss Federal Office of Finance and the Conference of Cantonal Ministers of Finance, and

As a member of the Consultative Group, I remain faithfully yours,

Prof. Dr. Andreas Bergmann
Zurich University of Applied Sciences
Institute for Public Management
St. Georgenstrasse 70/P.O. Box 958
8401 Winterthur/Switzerland

AUDIT INSTITUTIONS

T Hogan
9285.0017
A843

The Technical Director
Public Sector Committee
545 Fifth Avenue, 14th Floor
NEW YORK NEW YORK 10017 USA

29 January 2004

Dear Sir

Exposure Draft ED 23 Impairment of Assets

This response to ED 23 is written on behalf of the following Australian members of the Australasian Council of Auditors-General:

- Auditor-General for Western Australia
- Auditor-General of Tasmania
- Auditor-General for the Northern Territory
- Commonwealth Auditor-General
- Auditor-General for Victoria, and
- Auditor-General of New South Wales

Our comments on specific matters are contained in the attachment.

The opportunity to provide comment is appreciated and we trust you will find the attached comments useful.

Yours sincerely

R J Sendt
Auditor-General

Specific Matters for Comment

- (a) *the proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of the Exposure Draft (ED). Paragraph 1 excludes:*
- (i) *inventories;*
 - (ii) *assets arising from construction contracts;*
 - (iii) *financial assets included in the scope of International Public Sector Accounting Standard IPSAS 15 Financial Instruments: Disclosure and Presentation;*
 - (iv) *investment property that is measured at fair value under International Public Sector Accounting Standard IPSAS 16 Investment Property, and non-cash generating property, plant and equipment measured at fair value under International Public Sector Accounting Standard IPSAS 17 Property, Plant and Equipment;*
and
 - (v) *other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard;*

Response

We agree with the proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets. These inclusions are consistent with International Accounting Standard (IAS) 36 Impairment of Assets.

We also agree with the items excluded from the exposure draft as set out above, except for non-cash generating property, plant and equipment measured at fair value under International Public Sector Accounting Standard IPSAS 17 *Property, Plant and Equipment*.

We disagree with the proposed exclusion of these items because the exclusion creates an unnecessary difference between the proposed IPSAS and the December 2002 Exposure Draft of IAS 36 "Impairment of Assets". That Exposure Draft does not exclude property, plant and equipment carried at fair value. It explains at paragraph 4 how such a revalued asset may be impaired, including:

Where the asset's fair value is its market value, the only difference between fair value and net selling price is the direct incremental costs to dispose of the asset;
Where fair value is determined on a basis other than market value, its revalued amount may be greater or lower than its recoverable amount.

In short, there seems little point in not making this standard align as closely as possible with the proposed international standards, which in turn will be the basis of Australian Public Sector reporting from January 2005.

- (b) *the proposal to define cash-generating assets as assets held by:*

- (i) *Government Business Enterprises (GBEs); and*
- (ii) *public sector entities other than GBEs to generate a commercial rate of return (paragraph 13);*

Response

The proposed definition for cash generating assets refers to GBEs.

GBEs are defined in paragraph 13 to include entities that make a profit **or fully recover costs** [emphasis added]. However paragraph 11 of the ED states that GBEs are "profit-oriented" entities. The paragraph 13 definition should be reworded to make it clear that only profit-making entities are excluded from the proposed standard.

In defining "profit-making", reference should be made to the entity's objectives (rather than to its actual performance). Referring to objectives avoids any interpretation problems arising from short-term performance variations.

(The above approach would be consistent with the Australian Accounting Exposure Draft ED 109 in which the Australian Accounting Standards Board proposes that "A *not-for-profit entity* is an entity whose principal objective is not the generation of profit". Under this definition, an entity pursuing cost-recovery would be a not-for-profit entity rather than a GBE.)

- (c) *the proposal to assess at each reporting date whether there is an indicator that an asset may be impaired. Paragraph 20 identifies a minimum set of indicators, but the list is not exhaustive;*

Response

We agree with this aspect of the proposal. We recommend that the set of indicators should include whether evidence exists that assets are obsolete plus decline in market value (refer item (e) below).

- (d) *the proposal to estimate an asset's recoverable service amount when an indicator of impairment is present at the reporting date (paragraph 19);*

Response

We agree if any such indication exists, the entity should estimate the recoverable service amount of the asset.

- (e) *the proposal to exclude the decline in market value from the list of minimum indicators set out in black letter in paragraph 20 but indicate in commentary that it may be an indicator (paragraph 21);*

Response

We suggest that a significant decline in an asset's market value is important enough to be included in the black letter requirements of paragraph 20. This change would make it consistent with IAS 36.

- f) *whether the Standard should include:*

- (i) *a reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by paragraph 20; and*
- (ii) *an increase in demand or need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified by paragraph 53;*

Response

We agree that the Standard should include these two indicators.

- g) *the proposal to measure the value in use of a non-cash generating asset using the depreciated replacement cost, restoration cost or service units approaches as appropriate (paragraph 36);***

Response

We do not believe that the approaches in paragraphs 37-41 represent three different methods. This is because each approach starts with the asset's depreciated replacement cost, and then makes adjustments to this common base. In our view, for the approaches to be separate, the starting point (base) would need to be different for each method. Accordingly, we suggest the last sentence in paragraph 36 be replaced with: The present value of the remaining service potential of the asset is its depreciated replacement cost adjusted, where necessary, for:

- (i) the cost of repairing any existing damage (restoration costs); or
- (ii) the effects of any existing service limitations (service units).

- (h) *whether the three approaches to determination of value in use set out in paragraphs 37 to 41 are separate approaches as in the ED, or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches;***

Response

We do not see these as separate approaches. Refer to our comments at item (g) above.

- (i) *the proposal to recognise an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset's recoverable service amount is less than its carrying amount (paragraphs 45 and 47);***

Response

We agree with the proposal to recognise an impairment loss only if the recoverable service amount is less than its carrying amount.

- (j) *the proposal to assess at each reporting date whether there is an indicator that an impairment loss recognised for an asset in prior years may no longer exist or may have decreased. Paragraph 53 identifies a minimum set of indicators, but the list is not exhaustive;***

Response

We agree with the proposal.

- (k) *the proposal to estimate an asset's recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 52);***

Response

We agree with the proposal.

- (l) *the proposal to recognise a reversal of an impairment loss if, and only if, there has been a change in estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised, and increase the asset's carrying amount to its recoverable service amount subject to the ceiling set in paragraph 61 (paragraphs 58, 61 and 62); and***

Response

We agree with the proposal.

(m) the proposal to make disclosures as set out in paragraphs 65 and 68 - 70.

Response

We agree with the proposed disclosure requirements in the Exposure Draft.

Other Comments

We found it difficult to comment on ED 23, because it is based on a version of IAS 36 that has not taken account of proposed changes to IAS 36 exposed by the IASB in 2002. IFAC-PSC should consider for future exposure whether it is possible for drafts to take account of the latest proposals for changes to IFRSs.

The proposed Standard is deficient in that "Value in Use" is not defined in black letter in a way that specifies its measurement (currently the proposed Standard only refers to "present value of the asset's remaining service potential"). We suggest the definition for not-for-profit entities for "value in use" should be depreciated replacement cost where the asset would be replaced if the entity were deprived of it.

The second statement in the definition of 'Net Selling Price' should be removed. The statement that the net selling price is the fair value of the asset less the costs of selling is not always correct. Fair value may in some situations be determined on a basis other than selling price (eg depreciated replacement cost).

Office of the Auditor General of New Zealand

23 January 2004

My Reference: ER02-0008

The Technical Director
Public Sector Committee
545 Fifth Avenue, 14th floor
New York
New York 10017
UNITED STATES OF AMERICA

Dear Sir

IFAC PUBLIC SECTOR COMMITTEE EXPOSURE DRAFT 23: IMPAIRMENT OF ASSETS

Thank you for the opportunity to comment on the exposure draft (ED) about impairment of assets. We believe the ED is a very positive step because there is a need for guidance about impairment of non-cash generating assets.

Our views on the specific matters for comment and some general comments are outlined in the attachment to this letter. We trust our comments will be useful to the development of an International Public Sector Accounting Standard about Impairment of Assets.

Yours faithfully

Kevin Brady

ED 23 Impairment of Assets – Specific Matters for Comment

The proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of the Exposure Draft (ED). Paragraph 1 excludes:

- (i) inventories;*
- (ii) assets arising from construction contracts;*
- (iii) financial assets included in the scope of International Public Sector Accounting Standard IPSAS 15 Financial Instruments: Disclosure and Presentation;*
- (iv) investment property that is measured at fair value under International Public Sector Accounting Standard IPSAS 16 Investment Property, and non-cash generating property, plant and equipment measured at fair value under International Public Sector Accounting Standard IPSAS 17 Property, Plant and Equipment; and*
- (v) other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard.*

We agree that the Standard should apply to all non-cash generating assets that are not explicitly excluded in paragraph 1.

The proposal to define cash-generating assets as assets held by:

- (i) Government Business Enterprises (GBEs); and*
- (ii) public sector entities other than GBEs to generate a commercial rate of return (paragraph 13).*

We disagree with the proposed definition of cash-generating assets. All assets of GBEs do not necessarily generate cash and it would therefore be wrong to base the definition on the type of entity. In our view the definition should be more generic in order to be transportable. We suggest the definition be amended to read:

“Cash-generating assets are assets held to generate a commercial rate of return.”

We also suggest including a commentary paragraph to emphasise that at group level (i.e. where the group consists of public sector entities including GBEs), the assets would continue to be treated as they were in the financial statements of the individual entities.

The proposal to assess at each reporting date whether there is an indicator that an asset may be impaired. Paragraph 20 identifies a minimum set of indicators, but the list is not exhaustive.

We agree with the proposal.

The proposal to estimate an asset’s recoverable service amount when an indicator of impairment is present at the reporting date (paragraph 19).

We agree with the proposal.

The proposal to exclude the decline in market value from the list of minimum indicators set out in black letter in paragraph 20 but indicate in commentary that it may be an indicator (paragraph 21).

We disagree with the proposal. We see no reason why there should be separate (i.e. black letter and gray letter) lists of indicators.

Whether the Standard should include:

- (i) ***a reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by paragraph 20; and***
- (ii) ***an increase in demand or need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified by paragraph 53.***

We agree with the proposal. We also suggest adding “obsolescence” to the indicators, i.e. change paragraph 20(c) to:

- (c) *evidence is available of obsolescence or physical damage of an asset;*

The proposal to measure the value in use of a non-cash generating asset using the depreciated replacement cost, restoration cost or service units approaches as appropriate (paragraph 36).

Although we agree that the Standard should include all these approaches, we suggest it is clarified in the Standard that the restoration cost and service units approaches should be applied only when impairment arises from physical damage or a reduced expected number of service units, respectively.

Whether the three approaches to determination of value in use set out in paragraphs 37 to 41 are separate approaches as in the ED, or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches.

In our view the other two approaches (restoration cost and service units) are extensions of the depreciated replacement cost approach. These approaches are only applied in limited circumstances where the “condition” of the asset has changed i.e. physical damage or a reduction in the expected number of service units, and there is no information available to determine the value directly. However, under both these approaches the starting point is to determine the depreciated replacement cost of the asset before impairment.

The proposal to recognize an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset’s recoverable service amount is less than its carrying amount (paragraphs 45 and 47).

We agree with the proposal.

The proposal to assess at each reporting date whether there is an indicator that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased. Paragraph 53 identifies a minimum set of indicators, but the list is not exhaustive.

We agree with the proposal. However, see our comments regarding the recognition of the reversal of an impairment loss.

The proposal to estimate an asset's recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 52).

We agree with the proposal.

The proposal to recognize a reversal of an impairment loss if, and only if, there has been a change in estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized, and increase the asset's carrying amount to its recoverable service amount subject to the ceiling set in paragraph 61 (paragraphs 58, 61 and 62).

We disagree with the proposal to only recognise a reversal if there has been a change in estimates used to determine the asset's recoverable service amount. To ensure that the asset is recognised at the correct value, all reversals should be recognised. This will also be consistent with the principle for revaluing assets i.e. all increases and decreases are recognised.

However, if the PSC decides to retain this requirement, the requirement to assess, at each reporting date, whether a previous impairment loss no longer exists or had decreased should be changed. If reversals are only recognised when there is a change in the estimates used to determine the recoverable service amount, there is no need for an entity to perform an assessment if there was no change in the estimates used. In our view the requirement should be to assess the estimates used in the calculation of prior year impairment losses and if necessary, further impair or reverse prior year impairments.

We agree with the proposal to subject the resulting carrying amount to the ceiling set in paragraph 61.

The proposal to make disclosures as set out in paragraphs 65 and 68 – 70.

We agree with the required disclosures as proposed.

Other comments

1. We are concerned about the inconsistency created between cash-generating and non-cash-generating assets measured at fair value under IPSAS 17. ED 23 requires cash-generating assets to be subjected to an impairment test, while non-cash-generating assets need not be assessed for impairment. Although we agree with the proposal that the impairment of cash-generating assets be accounted for under IAS 36, we believe that such assets carried at fair value under IPSAS 17 should not be required to be tested for impairment. If the PSC considers it appropriate that assets measured at fair value should not be subjected to impairment testing, that view should be applied to all assets.

However, if the PSC maintains the position as proposed, we consider paragraph 8 should be expanded (maybe include some of the explanation in IAS 36 paragraph 4) to explain the reason for the inconsistency.

3. Paragraph 13 defines “impairment loss of a non-cash-generating asset” and “value in use of a non-cash-generating asset”, however, the Standard only refers to “impairment loss” and “value in use”. In our view the phrase “of a non-cash-generating asset” in both these definitions is unnecessary and should be deleted.
3. The reference to “present value” in the definition of “value in use of ...” indicates some form of discounting should be applied in determining value in use and therefore one expects some requirements/guidance on the discount rate to be included in the Standard. In our view the word “present” is unnecessary and should be deleted.
4. We are uncertain whether paragraphs 48 and 49 should be included in the final Standard resulting from ED 23. Unlike IAS 36, the approaches in ED 23 to determine value in use are not based on cash flows. Therefore, it is highly unlikely that the impairment loss would be greater than the asset’s carrying amount – in our view only the restoration cost approach might result in a negative recoverable service amount.

In respect of the example in paragraph 49 we believe that applying the principles of ED 23 would result in a recoverable service amount of zero because the asset is at the end of its useful life. The obligation to remove the installation would be separately assessed under IPSAS 19.

We suggest replacing paragraphs 48 and 49 with a commentary paragraph to recognise that obligations might exist in respect of certain assets and that it might result in a negative recoverable service amount. In these instances the asset should be written down to zero and the obligation should be separately assessed and recognised under IPSAS 19.

5. We noted a new value term is introduced in paragraphs 40 and 41 – “current cost of replacing the remaining service potential of the asset”. In our view this could cause confusion especially since that “value” would normally be the same as the

“depreciated replacement cost”. We suggest the “new” value term be replaced by “depreciated replacement cost”.

We further suggest deleting the last sentence of both paragraphs, because the calculation of depreciated replacement cost already takes into account the lower of reproduction and replacement cost (refer paragraph 37).

6. Our overall impression after reading the proposed standard, is that it is written with physical assets in mind – references to manufacture, construction and physical damage. However, it has a broader application, i.e. it also applies to intangible assets. We suggest including examples that would be applicable to intangible assets.

For consistency, we also suggest that all references to depreciation be followed, in brackets, by “amortisation”. This includes the definitions of “carrying amount”, “depreciation” and “impairment”. We noted that IAS 36 is drafted in this way and that IAS 36 includes a footnote to highlight that, although having the same meaning, “amortisation” is generally used for intangible assets and goodwill instead of “depreciation”.

7. We noted paragraph 38 (discussion on optimisation) does not refer to optimisation for technical obsolescence. We suggest the following amendment to paragraph 38 to provide guidance on optimisation for obsolescence:

38. The replacement cost and reproduction cost of an asset are determined on an “optimized” basis. The rationale is that the entity would not replace the asset with a like asset if the asset to be replaced is technically obsolescent or an overdesigned or overcapacity asset. Obsolescence may arise from factors such as outmoded design and functionality of an asset and changed code requirements preventing reconstruction of an asset in its current form. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset.

Paul King
The Audit Commission
1 Vincent Square
London
England
SW1P 2PN

The Technical Director
Public Sector Committee
545 Fifth Avenue, 14th Floor
New York
New York 10017
United States of America

30 January 2004

Dear Sir,

EXPOSURE DRAFT 23: IMPAIRMENT OF ASSETS

Please find attached a Technical Response from the Audit Commission to your consultation on the impairment of assets. If you would like to discuss any aspect of our response further, please do not hesitate to contact me.

Yours sincerely,

Paul King

Senior Manager, Accounting and Financial Reporting
Audit Policy and Appointments Directorate

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EXPOSURE DRAFT 23

IMPAIRMENT OF ASSETS

Audit Commission
response to the IFAC
Public Sector Committee

Public audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services. The Audit Commission ('the Commission') was established as an independent body in 1983 and has statutory responsibilities, amongst other things, for:

- **appointing auditors to local government, criminal justice and NHS bodies that spend some £120 billion of public money annually;**
- **setting the required standards for its appointed auditors, and regulating the quality of audits;**
- **making arrangements for certifying government grant claims and returns;**
- **undertaking or promoting comparative and other studies to promote the economy, efficiency and effectiveness of local government and NHS services;**
- **defining local government performance indicators;**
- **receiving and, where appropriate, following up information received from 'whistleblowers' in local government and NHS bodies under the Public Interest Disclosure Act 1998; and**
- **carrying out best value inspections of certain local government services and functions.**

The Commission appoints auditors to local government and NHS bodies from within the Commission and from private firms of auditors. Once appointed, auditors carry out their statutory and other responsibilities, and exercise their professional judgement, independently of the Commission.

Any comments on the issues raised by this response should be addressed to:

Paul King
Senior Manager, Accounting and Financial Reporting
Audit Policy and Appointments Directorate
The Audit Commission
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London
SW1P 2PN

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1. INTRODUCTION

- 1 The Audit Commission ('the Commission') welcomes the opportunity to comment on the IFAC Public Sector Committee's consultation on Exposure Draft 23 *Impairment of Assets*. This Exposure Draft concerns a specific aspect of public sector accounting which is of particular interest to the Commission. We consider that there is a need for clarity on the approach to impairment for assets in the public sector. We have therefore been interested in the development of this Exposure Draft and we comment the Committee for the development work which it has undertaken.
- 2 Accounting requirements for the public sector in the UK are for the government to determine. Public sector accounting has been developed in recent years with the intention that it should be equivalent to UK generally accepted accounting practice ('GAAP') except where the nature of the public sector requires a different accounting treatment. In practice, this means that public sector accounting standards adhere closely to the promulgations of the UK Accounting Standards Board.
- 3 Whilst International Public Sector Accounting Standards are not directly applicable in the UK public sector, the existence of definitive international guidance on the impairment of assets in the public sector will be of substantial assistance to preparers and auditors of financial statements. In addition, UK GAAP may well be influenced by the pronouncements of the International Accounting Standards Board, as a result of the decision by the European Community to requirement adoption of IFRSs for listed entities from 2005. This is likely to have an impact on the public sector accounting framework.
- 4 We have two general comments to make on the draft Exposure Draft and then we set out our responses to the individual issues on which the Committee has invited comments.

2. GENERAL COMMENTS

- 5 We welcome the work of the Committee in this area. Impairment of assets is a complex subject in all cases, but the public sector presents a number of additional challenges. This guidance should help ensure that the accounting for impairment internationally in the public sector is based on an agreed approach and implemented consistently. We have two general comments to make.
- 6 First, although International Public Sector Accounting Standards (IPSAs) are not directly applicable in the UK public sector, they are a useful resource for those involved in public finance and accounting. From this perspective, we consider that the Committee has perhaps unnecessarily limited the scope of this proposed Standard by excluding non-cash-generating property, plant and equipment assets which are carried at fair value under International Public Sector Accounting Standard 17. We note that in the UK, the large majority of property, plant and equipment is held at fair value (or at an appropriate revalued amount). Should IPSAs be adopted in the UK, this would rule out application of the proposed IPSAs to the majority of public sector plant, machinery and equipment. We consider that assets held at fair value under

IPSAS 17 could benefit from application of the framework as well. We are not convinced by the assertion in paragraph 7 that the regularity of valuation compensates for the lack of an applicable impairment standard.

- 7 Second, the Exposure Draft refers to Net Selling Price in a number of places. However, there is no clarity about how net selling price is to be calculated. At present, the practice for local authorities in England is to calculate net selling price (termed net realisable value) on the basis of existing use rather than taking into account all possible uses of the asset in question. However, we would welcome some international clarity on the appropriate basis for determining the Net Selling Price of public sector assets.

3. RESPONSES TO SPECIFIC QUESTIONS

(a) the proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of the Exposure Draft.

We consider that the scope of the proposed Standard is broadly appropriate. However, we consider that the Committee should reconsider the exclusion of non-cash-generating property, plant and equipment measured at fair value under IPSAS 17. We see no conceptual reason why the Standard should not apply to all non-cash-generating assets.

- (b) the proposal to define cash-generating assets as assets held by:*
- *government business enterprises (GBEs); and*
 - *public sector entities other than GBEs to generate a commercial rate of return (paragraph 13).*

The proposal to define cash-generating assets at paragraph 13 is consistent with the HM Treasury's Resource Accounting Manual.

(c) the proposal to assess at each reporting date whether there is an indicator that an asset may be impaired. Paragraph 20 identifies a minimum set of indicators, but the list is not exhaustive.

We agree with this proposal, which is consistent with both UK and international practice for impairment.

(d) the proposal to estimate an asset's recoverable service amount where an indicator of impairment is present at the reporting date (paragraph 19).

Estimation of an asset's recoverable service amount, where an indication of impairment is present at the reporting date, is an appropriate approach.

(e) the proposal to exclude the decline in market value from the list of minimum indicators set out in black letter in paragraph 20 but indicate in commentary that it may be an indicator (paragraph 21).

The intention behind exclusion of this factor from the black letter list of indicators is sensible. However, we have a slight concern that market value is a key element in the determination of recoverable amount. In consequence, its exclusion may be seen as slightly problematic. Nonetheless, we note the current practice in local authority accounting in the UK is that net selling price

in the public sector is taken to be net selling price in existing use. If this were the case internationally, then the changes in market value in the public sector would not be likely to be significant.

(f) whether the standard should include:

- a reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by paragraph 20; and
- an increase in demand or need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified by paragraph 53.

We consider that changes in the demand or need for services provided by the asset are useful and appropriate indicators of possible impairment or the reversal of impairment. It is important that the indicator stresses the need for the change in demand or need for services to be significant to avoid unnecessary impairment reviews being undertaken.

(g) the proposal to measure the value in use of a non-cash-generating asset using the depreciated replacement cost, restoration cost or service units approaches as appropriate (paragraph 36).

The current approach used in local authorities in the UK is for determining value in use for operational assets is to establish market value in existing use (net realisable value in existing use). It is only in the circumstances where it is not possible to obtain a market value in existing use, that depreciated replacement cost, restoration cost or service units approaches are used. In consequence, we consider that the proposal is appropriate.

(h) whether the three approaches to the determination of value in use set out in paragraphs 37-41 are separate approaches as in the ED or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches.

We consider the depreciated replacement cost approach to be a broader approach that encompasses the other two approaches to the determination of value in use.

(i) the proposal to recognise an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, where the assets recoverable service amount is less than its carrying amount (paragraphs 45 and 47).

This is an appropriate proposal. The treatment is consistent with the decision not to apply the standard to assets measured at fair or current value. If the scope of the standard was to be extended (as discussed above), these paragraphs would need to be revisited to ensure that the proposed accounting treatment is in line with IAS 36.

(j) the proposal to assess as each reporting date whether there is an indicator that an impairment loss recognised for an asset in prior years may no longer exist or may have decreased. Paragraph 53 identifies a minimum set of indicators, but the list is not exhaustive.

Assessment at each reporting date whether there is an indicator that a previously-recognised impairment loss may no longer exist or has changed is an appropriate approach.

(k) the proposal to estimate an asset's recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 52).

This is an appropriate approach, consistent with the approach to be adopted on the initial review for impairment.

(l) the proposal to recognise a reversal of an impairment loss if, and only if, there has been a change in estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised, and increase the asset's carrying amount to its recoverable service amount subject to the ceiling set out in paragraph 61 (paragraph 58, 61 and 62).

We consider this proposal to be appropriate.

(m) the proposals to make disclosures as set out in paragraphs 65 and 68-70.

The proposals for disclosure are appropriate. Users of financial statements will require information on any impairment losses which have been recognised or reversed in the period and the proposed level of disclosure should address their information needs.

INTERNATIONAL AND REGIONAL ORGANIZATIONS

International Valuation Standards Committee

The Technical Director
Public Sector Committee
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

4 February 2004

Dear Sir,

Exposure Draft 23
Impairment of Assets

The International Valuation Standards Committee is pleased to have this opportunity to comment on the above Exposure Draft. The ED was discussed by the IVSC Standards Board whose comments follow.

Before providing response to some of specific questions presented in the introduction the Exposure Draft, commentary from a '*property, plant and equipment*' perspective is offered in six specific areas:

1. **Fair Value Definition** -The definition of "Fair Value" provided in Section 13 of the draft differs slightly from the definition presented in IAS 16 in the definition in the Exposure Draft in that it includes the settlement of a liability as well as the exchange of an asset.
2. **Basis for Application** - Impairment only applied to property, plant and equipment that is not measured at fair value. That is, it only applies to those assets that are recorded under an historic cost basis. This differs from IAS 16/IAS 36 where impairment testing applies both accounting bases.
3. **Key Terms Undefined** -The terms *Service Potential*, *Service Performance* and *Service Units* form the foundation of the proposed measurement criteria, yet these terms are not defined. The lack of definitions for these key terms enhances the probability of misunderstanding related to their application.
4. **Net Selling Price (NSP)** -The discussion in Paragraphs 32 to 34 sets out a hierarchy to be followed in the determination of Net Selling Price, with market value falling at the lowest level. However, public sector assets frequently have no market (e.g. monuments, etc.), so comparisons simply cannot be drawn.
5. **Depreciated Replacement Cost Approach (DRC)** – In Section C8 the notes on DRC explain that, "...*the entity replaces the remaining service potential of the asset if it is deprived of it.*" While we agree with this statement, we disagree with statement at the end of the paragraph, "*Therefore, value in use is measured as the reproduction cost or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired service potential of the asset.*" The concept of measuring what has gone rather than what remains is not market related.

Page 2

6. **Replacement Cost vs. Reproduction Cost** – The Exposure Draft uses these terms interchangeably. The improper use of these terms as synonyms leads to internal conflicts. For instance, Paragraph 38 states that both replacement cost and reproductions cost are determined on an optimized basis. If this is so, there would be no need for the concept of restoration cost that is introduced in Paragraph 40 – no restoration is required if the cost is already based on optimization. Reproduction cost is the cost of an identical new item. Replacement cost is the cost of replacing an asset with an equally satisfactory asset. This distinction should be made and applied throughout.

We offer the following responses to certain of the Specific Matters for Comment presented on pages 3 through 5:

Item (a)(iv) – This implies that the impairment test is applied within the DRC calculation. Currently it is not.

Item (c) – This is helpful, but is weakened by the lack of definitions for *Service Potential* and *Service Performance*, as noted above.

Item (e) – The measure is the “higher of,” then the NSP is rather irrelevant. This is an issue with Paragraphs 32 to 34, where market value is the third default. It is relevant that with property, plant and equipment (in the public sector) there is generally no directly applicable market evidence, and value would be premised on a different or alternative use.

If there are any matters arising from the IVSC response that require further clarification, please get in touch.

With kind regards,

Marianne Tissier
Executive Director, IVSC

OTHER INDIVIDUALS AND ORGANISATIONS

Memo

To: Technical Director
 From: Geoff Harry /
 Date: 27 January 2004
 Subject: Comments on ED 23 Impairment of Assets

I have reviewed the exposure draft ED 23 "Impairment of Assets" and provide my comments on the draft. I point out that my comments are my own personal views and do not represent those of PricewaterhouseCoopers, who may provide separate comments following its own review of the draft.

In general terms I support the approach of the ED to identifying, measuring and reporting on asset impairments. I think the ED provides useful guidance and greater clarity of the links between the key concepts described in the ED as recoverable service amount, value in use and net selling price and when each is relevant. One of the old reference sources in this area was the 'Working Guide for Statement of Accounting Practice SAP 1 Current Cost Accounting'. In recent years guidance of this type has been missing. Hence my comment about guidance to practitioners. This reference may be old but it still has useful commentary for practitioners looking to make selections about the valuation base for assets.

I have noted a number of points of concern in the ED and have summarised these below.

Paragraph	Comment
7	<p>This paragraph raises the issue of the impairment test not being applied to non cash generating assets carried at fair value in accordance with IPSAS 17. I do not have great knowledge of IPSAS's but paragraph 7 seems to raise some questions:</p> <ul style="list-style-type: none"> ▪ Is there a choice as to whether to apply IPSAS 17? ▪ If IPSAS 17 applies to Property, Plant and Equipment and by following that standard there is no need to follow ED 23, under what circumstances will ED 23 be applied? <p>My point is that perhaps paragraph 7 should provide further comment on when ED 23 will be applicable</p>
15	<p>This paragraph should make it clear that if public sector entities other than GBE's have cash generating assets, those assets are caught by IAS 36.</p>
20	<p>Paragraph 20(b) could include regulatory issues as a further relevant example of significant long term change</p>

20	Paragraph 20(f) refers to changes in ‘service performance’ as an indicator of impairment. My comment here is that service performance levels may not change but the period over which the service performance is provided may change significantly. I would regard this change as significant also. I therefore suggest an addition of the words ‘or period of service performance’ to the paragraph after ‘service performance’
21	The ED makes no reference to an outcome whereby, upon assessing whether or not an impairment has occurred, the value of the asset has actually increased. It is perhaps unlikely but is conceivable. In that event what happens?
25	I understand the reason for the example being included but I wonder whether it implies that this is the only type of difference where materiality needs to be assessed. I suspect this is not the case.
39	I do not agree with the implication in this paragraph that surplus capacity may be held only ‘for safety’ reasons. There are many reasons why surplus capacity may be held.
27-43	These paragraphs discuss measurement of recoverable service amount, net selling price and value in use. In the latter case three approaches are discussed. There is no reference to ‘reproduction cost’, which is a concept that may have relevance in the public sector. There are many examples of assets which for various reasons have been significantly or in fact completely reproduced. These assets tend to have historic importance and are replicated or reproduced. Is it the intention of the ED that such assets be treated as restored? Or should this discussion talk about reproduction? A good example of an asset that may have to be reproduced is an old building that represents Australia’s past and a decision has been taken that it must be reproduced (using current day materials which replicate the old). In such circumstances the cost of reproduction may be significantly greater than replacement or restoration
42	This is an important paragraph. It provides practitioners with the guidance they need in making choices about an appropriate basis of valuation in determining if impairment has occurred. It makes fairly bald statements about approaches to valuing assets. This paragraph would be of greater value if reasons behind each of these statements were added.
45	This is a very clear statement. However should the first sentence contain the

	word 'material'?
47	It would be worth pointing out in the ED that even though an impairment loss should be recognised, this is an addition to annual depreciation charges
61	This paragraph reminds me that there would be value in providing commentary at the front of the ED which provides context to other standards dealing with asset revaluation. This paragraph discusses increasing carrying amount once the impairment factors change. It would be easy for practitioners to become confused about revaluations and reversal of impairments. Contextual comment would help
69	I presume that an entity could meet the requirements of 69(f) and (g) by referring to an accounting policy note that may already exist in the notes to the financial statements. If not then this requirements seems to be excessive
72	I note the point that the ED should be applied prospectively only. I am wondering whether for transition there should be a requirement that all assets caught by the standard should be reviewed for signs of impairment within say a two year period. This would provide assurance to users of financial reports that any impairments have been recognised
Appendix B Ex 1	My query here goes back to an earlier point above about guidance on selection of the correct approach to measurement. Example 1 is easy to follow but I question why the preliminary comment does not explain the rationale for selecting the depreciated replacement cost approach. For example why not consider the net selling price approach?
Appendix B Ex 2	I have the same query for example 2 that I have for example 1
Appendix B Ex 3	This example is likely to be unrealistic. In practice, a population shift of this magnitude rarely happens. I understand the point being drawn out here but suggest a better example. The other point here is as for the two earlier example mentioned above. What is the rationale for using the depreciated replacement cost approach?
Appendix B Ex 4	I have problems with this example. It shows a reduction in value because of the restoration cost of \$40k. It is likely that an asset of the nature used in the example will be insured. The example does not take account of the impact of the insurance settlement that would occur if it was an insurable asset. Also, the asset (a school bus) could be quickly repaired and be operable again in a short period. In this case I fail to understand how there has been an impairment of the asset other than for a very short time, which is likely to result in an immaterial impairment.(ie for a few weeks whilst the asset is

	repaired or replaced.
Appendix B Ex 5	<p>Again I question the reality of the example. It is not realistic to assume that the restoration costs are fully capitalisable. If the asset is restored to its previous operating capacity, then it is incorrect to assume that the restoration costs can be capitalised. They add no additional productive capacity to the asset.</p> <p>In any event, again the asset is likely to have been insured in which case there is no net cost (or little net cost) to the owner. Again I query whether there has been impairment, other than for a short time whilst the fire damage is fixed. Upon completion of the restoration works there is unlikely to be any asset impairment.</p>
Appendix B Ex 6	Would the outcomes of this example change if the top four floors(which can no longer be used) provided more than 20% of the rental revenue stream for the whole building. Is revenue streams an irrelevant concept in this example?
Appendix B Ex 7	This example does not address the question of what would be the outcome if the asset owner decided that it wanted to incur the cost of restoring the machine to its previously estimated output of 40 million copies. Whilst the owner might decide that such a cost may not be justified, it is a decision process any asset owner would likely consider. In addition the asset owner would likely consider remedies from the machine vendor. If a settlement was reached with the vendor, what impact would the settlement have on the impairment calculation?
Specific matters for comment listed in ED	
(a)	I have no particular concerns with the inclusion of agricultural assets, goodwill, intangibles, etc
(b)	The proposal concerning cash generating assets raises no particular issues for me.
(c)	The proposal to assess at each reporting date is acceptable
(d)	The proposal to estimate recoverable service amount is acceptable
(e)	The proposal regarding decline in market values seems consistent with the approach that market value decline of itself does not necessarily indicate impairment.
(f)	Acceptable so long as there is clarity around what represents reversal of

	impairment compared with what represents revaluation
(g)	I have commented on paragraph 36 above.
(h)	Acceptable. Do not see the significance of whether there are separate approaches or part of one broader approach.
(i)	Acceptable
(j)	Acceptable
(k)	Acceptable
(l)	Acceptable so long as there is clarity as to when the revaluation standard applies
(m)	My comments above deal with this

Geoff Harry

-----Original Message-----

From: Paul Sutcliffe [<mailto:psutcliffe@ifac.org>]

Sent: Friday, 9 January 2004 9:22 AM

To: MATTRET Jean-Bernard

Cc: Li hongxia (IFAC)

Subject: RE: External Review of PSC and Comments due on PSC ED 23 by January 31

-----Original Message-----

From: MATTRET Jean-Bernard [<mailto:jbmattret@picardie.ccomptes.fr>]

Sent: Thursday, January 08, 2004 6:57 PM

To: Paul Sutcliffe

Subject: Re: External Review of PSC and Comments due on PSC ED 23 by January 31

Dear Paul,

Thanks you for the text of ED23. Could you simplify the scope of exposure draft and say that he applies only at IPSAS's 16 and 17?

I am answering at questions of External Review of PSC.

Yours sincerely,

Jean - Bernard

The Technical Director
Public Sector Committee
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10 February 2004

Dear Sir

ED 23 Impairment of Assets

PricewaterhouseCoopers, New Zealand is pleased to take this opportunity to comment on the proposals contained in Exposure Draft ED 23, *Impairment of Assets*.

Non-cash-generating assets are significant for public sector entities and we support the Public Sector Committee's objective for developing this exposure draft.

Our detailed comments on the issues raised are attached.

Yours faithfully



Warwick E Hunt
Chief Executive Officer
PricewaterhouseCoopers New Zealand

Matters on which the Committee would particularly value comments on

(a) the proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of the Exposure Draft, Paragraph 1 excludes:

- (i) inventories;*
- (ii) assets arising from construction contracts;*
- (iii) financial assets included in the scope of International Public Sector Accounting Standard IPSAS 15 Financial Instruments: Disclosure and Presentation;*
- (iv) investment property that is measured at fair value under International Public Sector Accounting Standard IPSAS 16 Investment Property, and non-cash-generating property plant and equipment measured at fair value under International Public Sector Accounting Standard IPSAS 17 Property, Plant and Equipment; and*
- (v) other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard.*

While we agree with the scope of the proposed standard, we believe it could be expressed more simply and generically. We suggest that the scope paragraph could be reduced to:

An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for all assets, except:

- (a) assets measured at fair value under another International Public Sector Accounting Standard; and*
- (b) assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard.*

Even this could potentially be simplified by dropping the reference to assets measured at fair value, given the rationale for the exclusion of investment property measured at fair value set out in paragraph 6.

Such a simplified scope paragraph would automatically exclude the specific items currently identified in paragraph 1 and would mean that paragraphs 5 to 10 are superfluous. It also makes it very clear that impairment standards are applicable for all assets because they are covered either by the proposed Standard, or another IPSAS.

(b) the proposal to define cash-generating assets as assets held by:

- (i) Government Business Enterprises (GBEs); and***
- (ii) public sector entities other than GBEs to generate a commercial rate of return (paragraph 13).***

The definition of cash-generating asset for non-GBEs (paragraph 13) is inconsistent with the commentary set out in paragraph 15. The definition is entity focused in that it states that [all] assets held by “public sector entities other than GBEs to generate a commercial rate of return” are cash generating assets. Conversely, paragraph 15 addresses whether each asset (or unit of which the asset is a part) is cash-generating. We believe the position set out in paragraph 15 is appropriate and is the one that should be adopted. We therefore recommend that the definition be amended to conform to paragraph 15.

(c) the proposal to assess at each reporting date whether there is an indicator that an asset may be impaired. Paragraph 20 identifies a minimum set of indicators, but the list is not exhaustive.

While we largely agree with the indicators identified, and certainly agree the list is not exhaustive, we believe the structure of this section of the proposed Standard is unduly complex and may result in assets not being assessed for impairment in circumstances where they should. For example, if there has been a significant decline in an asset’s market value, or a significant decline in the demand or need for the services provided by the asset, we believe these are circumstances that do indicate there may be impairment.

Therefore, we believe all the indicators identified in the proposed Standard should be presented in a single place.

Furthermore, we believe the use of the qualifying term “long-term” in several places in the proposed Standard is inappropriate and may lead to impairment losses not being identified and recognised.

(d) the proposal to estimate an asset’s recoverable service amount when an indicator of impairment is present at the reporting date (paragraph 19).

We agree with this proposal.

(e) the proposal to exclude the decline in market value from the list of minimum indicators set out in black letter in paragraph 20 but indicate in commentary that it may be an indicator (paragraph 21).

As stated under (c) above, we disagree with this differentiation.

(f) whether the Standard should include:

- (i) a reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by paragraph 20; and***
- (ii) an increase in demand or need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified by paragraph 53;***

We believe these indicators should be included within paragraphs 20 and 53, respectively.

(g) the proposal to measure the value in use of a non-cash-generating asset using the depreciated replacement cost, restoration cost or service units approaches as appropriate (paragraph 36).

We agree with the proposal to measure value in use of a non-cash-generating asset using depreciated replacement cost, but consider restoration cost and service units approaches as sub-sets of depreciated replacement cost.

(h) whether the three approaches to determination of value in use set out in paragraphs 37 to 41 are separate approaches as in the ED, or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches.

As indicated under (g) above, we believe the restoration cost and service units approaches are sub-sets of depreciated replacement cost. Therefore, in our view, these approaches would be better addressed within discussion paragraphs on how to apply the depreciated replacement cost method.

(i) the proposal to recognise an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset's recoverable service amount is less than its carrying amount (paragraph 45 and 47).

We agree with this proposal.

(j) the proposal to assess at each reporting date whether there is an indicator that an impairment loss recognised for an asset in prior years may no longer exist or may have decreased. Paragraph 53 identifies a minimum set of indicators, but the list is not exhaustive.

We agree with the proposal to assess at each reporting date whether there is an indicator that an impairment loss recognised for an asset in prior years may no longer exist or may have decreased.

However, consistent with our comments about the list of indicators for when an impairment loss may have arisen, we believe that the indicators should be in a single location. We agree that the list is not exhaustive.

We have some concerns about the x-ray example given in paragraph 56. It is not clear to us whether the previous impairment loss arose as a result of under-utilisation or as a result of the discontinuance or restructuring. If the machine had been purchased in the knowledge that it would not be full utilised (but was nevertheless the appropriate machine for the clinic to acquire), we do not believe that the anticipated under-utilisation would necessarily result in an impairment loss. We believe this example needs to be clarified.

We believe the last phrase of paragraph 53(e) should read, “significantly better than *previously* expected.”

We do not believe the last sentence in paragraph 54 is necessary and it should be deleted. Materiality has already been addressed in the italicised preamble to the proposed Standard.

(k) the proposal to estimate an asset’s recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 52).

We agree with this proposal.

(l) the proposal to recognise a reversal of an impairment loss if, and only if, there has been a change in estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognized, and increase the asset’s carrying amount to its recoverable service amount subject to the ceiling set in paragraph 61 (paragraphs 58, 61 and 62).

We agree with this proposal.

(m) the proposal to make disclosures as set out in paragraphs 65 and 68 – 70.

We believe that the disclosures required by paragraph 68 would more appropriately sit within IPSAS 18 and we recommend that a consequential amendment be made to that Standard, rather than include them within this proposed Standard.

Otherwise, we agree with the proposed disclosures.

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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ص.ب: ١٦٣٢ الرقم البريدي: ١١١١١ الخرطوم

Ref. No. *MOM/PS/ED 23*

Date

14/11/2003

The Technical Director
Public Sector Committee
International Federation of Accountants (IFAC),
545 Fifth Avenue, 14th floor,
New York, N Y 10017,
United States of America

الرقم

التاريخ

SUBJECT: EXPOSURE DRAFT 23
IMPAIRMENT OF ASSETS

1- Will you please find below my comment on the specific matters raised in the above exposure draft:-

(a) As the agriculture assets are tangible assets while goodwill and all other identifiable intangible are intangible assets in addition to their specific varied nature I think they should be explicitly excluded in paragraph 1 of the exposure draft.

In particular agriculture assets should be looked at on the same footing like (ii) assets arising from construction contracts and as such they should be excluded.

(b) I do agree with the proposal to define cash-generating assets as shown in the exposure draft.

(c) As paragraph 20 identifies a minimum set of indicators, but the list is not exhaustive, I think we should add:

“ And alike” so the paragraph should be re-read as:

“ In assessing whether there is any indication that an asset may be impaired, an entity should consider, as a minimum, the following indications AND ALIKE.”

(d) I do agree with the proposal to estimate an asset's recoverable service amount when an indicator of impairment is present at the reporting date (Paragraph 19).

(e) I do agree with the proposal to exclude the decline in MARKET VALUE from the list of minimum indicator setout in black letter in Paragraph 20. That is because impairment reflects a decline in the utility of an asset to the entity that controls it while the decline in market value may be due to market forces such as the law of supply and demand.

- (f) (i) I do not agree that the standard should include a reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by Paragraph 20. That is because this situation depends upon competition law of supply and demand and other market forces.
- (ii) I do not agree that the standard should include an increase in demand or need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified by Paragraph 53.

That is because this will be reflected in the revenue of an entity if realized.

- (g) I do agree with the proposal to measure the value in use of a non-cash-generating asset using the depreciated replacement cost, restoration cost or service units approaches as appropriate (Paragraph 36).
- (h) Although the three approaches to determination of value in use set out in Paragraphs 37 to 41 are separate approaches as in the ED, yet the depreciated replacement cost approach is a common factor in the other two approaches i.e. "Is usually determined as the depreciated reproduction or replacement cost of the asset, whichever, is lower".
- (i) I do agree with the proposal to recognize an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the assets recoverable service amount is less than its carrying amount (Paragraphs 45 and 47).
- (j) I do agree with the proposal to assess at each reporting date whether there is an indicator that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased.
- (k) I do agree with the proposal to estimate an asset's recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (Paragraph 52).
- (l) I do agree with the proposal to recognize a reversal of an impairment loss if, and only if, there has been a change in estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized, and increase the asset's carrying amount to its recoverable service amount subject to the ceiling set in Paragraph 61 (Paragraphs 58, 61 and 62).

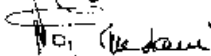
That is because a reversal of an impairment loss for an asset should be recognized as REVENUE in the statements of financial performance immediately (Paragraph 62), as far as an impairment loss should be recognized as an EXPENSE in the statements of financial performance immediately (Paragraph 47).

Therefore, I think any excess to the ceiling set in Paragraph 61 should be credited to a revaluation reserve so that the asset's recoverable service amount should be shown as estimated being the asset's revised carrying amount.

- (m) I do agree with the proposal to make disclosures as set out in paragraphs 65 and 68 – 70.

2- Finally, while it is hoped that this will be of your assistance; yet I am looking forward for your news in this respect with interest and thanking you for your continued co-operation and interest.

Kind regards



Yours sincerely

M O A R Medani.

P.O. Box: 1632 Khartoum

P. Code: 11111 Sudan

28 January 2004

The Technical Director
Public Sector Committee
545 Fifth Avenue, 14th floor
New York
New York 10017
United States of America

By email EDComments@ifac.org

Dear Sir,

IFAC Exposure Draft 23 – Impairment of Assets

The Royal Institution of Chartered Surveyors (RICS) has considered the Exposure Draft proposals for the identification, recognition, measurement, reversal and disclosure of an impairment loss in respect of public sector assets.

RICS is an international professional body with over 100,000 individually qualified Chartered Surveyors worldwide providing professional advice on all land and property issues. Asset valuation, including the valuation of both real estate and plant and equipment, is a key skill which underlies the services provided by a large number of these members. An independent, not-for-profit organisation, RICS has an obligation to comment independently on matters that it perceives to be relevant to its profession.

Our comments and suggestions are made in the context of the RICS policy, namely:-

“The RICS is committed to a single set of international valuation standards and supporting guidance being produced which provides a common framework for valuers worldwide. To that end it will continue to direct both financial and intellectual resources.”

The RICS does not see its role as commenting on the underlying accounting principles. Our members' expertise lies in the measurement and valuation of assets and we have confined ourselves to commenting on where we believe the Standards, or the proposed improvements, have practical valuation implications.

More specifically the RICS has in place a Public Sector Valuation Group which is working with its members, central government and other standard setters with the aim of producing advice for valuers on the application and interpretation of the specific requirements for valuations in the public sector.

For convenience our submission follows the numbering of the points for comment listed on pages 4 and 5 of the Consultation paper

Paragraph a to d

No comment

Paragraph e

We note that it is proposed to exclude a decline in market value from the list of minimum indicators for impairment but it is permitted to recognise such a decline as a subsidiary factor. This separation is

reasonable where the accounts are based on historic cost although there will be circumstances where the net selling price (market value less disposal cost) may be higher than the recoverable service amount and therefore an assessment of net selling price may be necessary. However where the accounts are based on revaluations to current values, as they are in many countries, for example the UK and Australia, the decline in such values would automatically lead to consideration of any impairment and thus no criteria are required in any revaluation. However this would not be the case where indexation is used to keep valuations updated between revaluations.

Paragraph f and g

No comment – although please note comments on the use of DRC below and upon specific examples made later.

Paragraph h

There is considerable debate within the international valuation profession about the application of DRC methodology. Although you indicate that the terms ‘replacement’ and ‘reproduction’ costs are synonymous there are different interpretations within the profession. In broad terms ‘reproduction’ is taken to be the physical replacement of the property, for example a castle used as offices would be replaced as a castle, whereas ‘replacement’ reflects an optimized basis. The importance of this application is that in the UK the public sector owns many properties of historic interest and there may be a legal requirement to maintain them irrespective of any actual use to which they may be put.

In either case the restoration cost or service units approach are concepts which are used **within** a Depreciated Replacement Cost approach as assessment tools to determine the amount of “depreciation” to which an asset should be subject. It follows that, in strictly literal terms, the Depreciated Replacement Cost approach is one which incorporates the other two approaches but it is accepted that clarity may be assisted by isolating these two methods of assessment within the overall approach.

It is, of course, important to appreciate that the depreciation factor within the Depreciated Replacement Cost valuation is made up of a blend of factors including age, technical and functional obsolescence, optimisation and impairment issues and so on. The use of the word ‘depreciation’ in this context is wholly different from the meaning of depreciation when applied to the carrying cost of an asset on the balance sheet. The accumulated depreciation in your examples under this basis are entirely on a time expired basis against original target life. The DRC valuation catches other issues in the process of depreciating the gross replacement cost, including impairment.

Paragraph i

No comment other than to again refer you to comments made upon the examples where RICS believe there is conflict in approach between historic and current cost.

Paragraph j to m

No comment.

Appendix B – Measurement of Impairment Loss – Examples 1-3 Depreciated Replacement Cost Approach

In the first three examples of DRC the current replacement cost of the asset which would be replaced is subject to an identical adjustor for accumulated depreciation as is the original acquisition/historic cost.

We would argue that to derive a Depreciated Replacement Cost, a simple factor of years expended against target life is not the sole criteria and, as explained above in our response to para. d, there are other measures incorporated in these adjustments to reflect obsolescence or impairment issues. This is

why assets which are regularly revalued do not generally need an impairment test (depending on the interval between revaluations) as this should be incorporated into the valuation process.

In example 1

It may be that the replacement computer (current cost of 500,000 units) will have a target life of more or less than 7 years. It may also be that the older over specified mainframe (original cost of 10m units) will now have a longer life but only at its reduced carrying amount. It would be helpful to deal with these issues in the example.

In example 2

The school converted for use as a warehouse. It may be that the replacement cost of a storage facility is £4.2m but presumably the lay out of the school is not as effective as a purpose built storage facility and therefore the accumulated depreciation should be more than 6/50ths.

In example 3

This point relates to the logic of adjusting the historic cost based carrying amount by an amount determined from a current Depreciated Replacement Cost.

If the school is impaired by the loss of 2 out of 3 of the floors, why is the carrying amount not simply reduced by 2/3rds? This would maintain the integrity of the original historic cost based carrying amount. By undertaking a current replacement cost and then adjusting for accumulated depreciation as before the result does not compare apples with apples. The justification for such an approach needs to be made more explicitly in the main ED.

Assume an identical single storey school constructed at the same time as example 3 designed originally to serve the same capacity as that now required by this example school and where there has been no population shift. If logic is followed, this identical but original single storey school will have a carrying amount of 416,667 (ie 1.25m divided by 3) yet the answer for the 'notional' single storey school now adjusted is higher at 650,000. This would appear inconsistent. and underlines the fact that the approach recommended is an uncomfortable mix of historic cost and current values. .

Example 4 and 5 – Restoration Approach

Our comments regarding comparison of apples with apples also apply here. In our view, an unsatisfactory result occurs when the restoration cost is actually incurred. By taking the current day replacement cost adjusting for accumulated depreciation (subject to our earlier caveat) and then deducting the restoration cost, we would argue that an over stated DRC (damaged state) answer results.

Taking the figures from example 4, assuming the restoration cost is subsequently incurred the asset will have a revised carrying amount of 85,000 + 40,000 ie 125,000. However the asset will be in no better a state than that represented by its pre damaged carrying amount of 100,000 units. This seems illogical, and a more normal approach would perhaps have been just to expense the repair costs.

Same result again with example 5 where a DRC (damaged) plus restoration cost totals £52.5m yet the building is in no better a state than its pre-fire damaged carrying amount of £26.25m.

In all of these cases what in effect is occurring is a form of quasi revaluation where the reporting body is moving away from an entirely historic cost based assessment (impaired or otherwise) to a partially current day basis of valuation .

Example 6 and 7 – Service Units Approach

Again our comments in respect of the conflict between current and historic based costs apply. If the 20 storey office building is to lose the top 4 storeys then simplistically why cannot the carrying amount be

reduced by 4/20ths. A similar comment applies to the printing machine with a 25% reduction of annual output, i.e. why not apply a simplistic reduction of the carrying amount to 75%. In both cases there would be no conflict between historic and current cost as the latter would not be used.

Conclusion

In considering all the examples, they appear to mix historic cost with current values. We question whether a carrying amount based on incurred cost or possibly even an out of date revaluation less depreciation should 'philosophically' be amended by a current cost based adjustor which of itself assumes that the accumulated depreciation factor is the same as the factors that will adjust the current gross replacement cost in a DRC valuation. As explained earlier, depreciation in a DRC valuation incorporates not only a range of factors including years expired against target life but also obsolescence and optimisation/impairment. Even stripped of the impairment issues, it is most unlikely to be the same as the accumulated depreciation factor which is entirely time based.

It seems that for impairment only, a form of partial rebasing to a current value basis is achieved. If this is acceptable to IFAC, then, in order to compare the carrying amount of assets across an asset class on a consistent basis, perhaps a more coherent alternative would be to encourage a policy of revaluation more generally. This would also have the benefit of fitting with the aim that we understand the PSC is also pursuing of producing accruals accounts which are compatible with national accounts requirements. .

We would be pleased to discuss any part of this response with you. The contact for any matter arising out of this letter is Arthur Whatling, FRICS, email: arthurwhatling@waitrose.com or 07985 045537 or myself.

Yours faithfully,

Andrew Gooding
Director
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Faculties & Forums
RICS 12 Great George Street
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National
Housing
Federation

FINANCE POLICY TEAM

NHF Response

Title: International Federation of Accountants
(Public Sector Committee) – Exposure Draft
23 Impairment of Assets.

Contact: Wincy Lee

Direct Line: 020 7843 2244

Date: January 2004

Ref No:

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27 January 2004

The Technical Director
Public Sector Committee
545 Fifth Avenue
14th Floor New York
New York 10017
USA

Dear Technical Director

**International Federation of Accountants (Public Sector Committee) –
Exposure Draft 23 Impairment of Assets.**

The Federation is pleased to have the opportunity to comment on ED 23
'Impairment of Assets.'

The Federation represents nearly 1400 independent, not for profit housing providers. Our members include registered social landlords, housing associations, co-ops, trusts and transfer organisations. They manage more than 1.8 million homes provided for affordable rent, supported housing and low cost home ownership as well as delivering a wide range of community and regeneration services.

It is not uncommon for housing associations to have impairment of assets. I am therefore attaching a detailed document responding to the relevant questions within the Consultation Paper. However, in particular, the Federation would like to highlight the below ;

- We note that the draft does not apply to revalued assets, however we consider that many of the principles contained within the Draft apply equally to assets held at valuation and those held at historic cost. We therefore consider that the Draft should be extended to consider fully the impairment of revalued assets.



- It would be helpful for the Draft to make it more explicit that an impairment on one asset cannot be offset against an increase in value on another.

Yours sincerely

Wincy Lee
Policy Officer

enc



National
Housing
Federation

RESPONSE

ED 23 – IMPAIRMENT OF ASSETS

IFAC PUBLIC SECTOR COMMITTEE- ISSUED SEPTEMBER 2003

The National Housing Federation is pleased to have the opportunity to comment on the Exposure Draft 23 '*Impairment of Assets*.'

The Federation represents nearly 1400 independent, not for profit housing providers. Our members include Registered Social Landlords, Housing Associations, Co-ops, Trusts and transfer organisations. They manage more than 1.8 million homes provided for affordable rent, Supported Housing and Low Cost Home Ownership as well as delivering a wide range of community and regeneration services.

OVERALL COMMENTS

We note that the draft does not apply to revalued assets, however we consider that many of the principles contained within the Draft apply equally to assets held at valuation and those held at historic cost. We therefore consider that the Draft should be extended to consider fully the impairment of revalued assets.

It would be helpful for the Draft to make it more explicit that an impairment on one asset cannot be offset against an increase in value on another.

DETAILED RESPONSE TO SPECIFIC QUESTIONS

(a) the proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of the Exposure Draft (ED). Paragraph 1 excludes:

(i) inventories;

(ii) assets arising from construction contracts;

(iii) financial assets included in the scope of International Public Sector Accounting Standard IPSAS 15 Financial Instruments: Disclosure and Presentation;

(iv) investment property that is measured at fair value under International Public Sector Accounting Standard IPSAS 16 Investment Property, and



non-cash generating property, plant and equipment measured at fair value under International Public Sector Accounting Standard IPSAS 17 Property, Plant and Equipment; and
(v) other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard.

We support the proposal to include intangible assets in the proposed Standard however we are concerned to ensure that if the proposed Standard includes intangibles and goodwill it does so in a comprehensive manner relevant to such balances within public sector entities. For example,

- the indications of impairment included in paragraph 20 of the Exposure Draft do not address goodwill and intangibles adequately
- the valuation of assets on depreciated replacement cost is not appropriate and may not be practical in considering the value of goodwill balances and intangible assets
- the proposals in respect of reversals of impairment losses should consider in more depth how reversals in impairment losses for intangible assets and goodwill should be identified, measured and valued.

(b) the proposal to define cash-generating assets as assets held by:
(i) Government Business Enterprises (GBEs); and
(ii) public sector entities other than GBEs to generate a commercial rate of return (paragraph 13)

We are uncertain as to whether situations may arise when Government Business Enterprises hold assets for purposes other than generating cash. If such circumstances were deemed to be possible we consider that cash generating asset should be defined as assets held by public sector bodies and GBEs to generate a commercial rate of return.

(c) the proposal to assess at each reporting date whether there is an indicator that an asset may be impaired. Paragraph 20 identifies a minimum set of indicators, but the list is not exhaustive;

We consider that it is appropriate at each reporting date to assess whether there is an indicator that an asset may be impaired. We are concerned however that the indicators in paragraph 20 do not readily cover all types of intangible assets, in particular goodwill and consider that the minimum set of indicators should be more extensive.

(d) the proposal to estimate an asset's recoverable service amount when an indicator of impairment is present at the reporting date (paragraph 19);

We agree with this proposal.



(e) the proposal to exclude the decline in market value from the list of minimum indicators set out in black letter in paragraph 20 but indicate in commentary that it may be an indicator (paragraph 21);

We agree with this proposal. In the UK social housing sector, housing properties are valued on an Existing Use Value for social housing. We consider that in this context it would be inappropriate to be required to consider decline in market value as an indicator of impairment unless it was in respect of assets held specifically for sale.

(f) whether the Standard should include:

(i) a reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by paragraph 20; and

(ii) an increase in demand or need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified by paragraph 53;

We consider that the minimum set of indicators should include a long term reduction in demand or need for services that is not expected to reverse. We therefore also consider that an unforeseen reversal in an expected long term reduction in demand or need for services should be included in the minimum set of indicators identified by paragraph 53.

(g) the proposal to measure the value in use of a non-cash generating asset using the depreciated replacement cost, restoration cost or service units approaches as appropriate (paragraph 36);

We consider that in the social housing sector in the UK the most appropriate method of valuation is the Existing Use Value – Social Housing. By its definition it is a valuation specific to social housing and is a prudent measure of the EUV assuming the properties will continue to be let as affordable housing.

We consider that valuing social housing properties at depreciated replacement cost would not only be inappropriate, but also may potentially overvalue the balance sheet of social housing entities in markets where properties are subject to ongoing increases in price caused by general levels of demand.

(h) whether the three approaches to determination of value in use set out in paragraphs 37 to 41 are separate approaches as in the ED, or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches



We do not consider that depreciated replacement cost is an approach that is suitable for the social housing sector for the reasons set out in our response to (g).

(i) the proposal to recognize an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset's recoverable service amount is less than its carrying amount (paragraphs 45 and 47)

We agree with the proposal to recognize an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset's recoverable service amount is less than its carrying amount.

(j) the proposal to assess at each reporting date whether there is an indicator that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased. Paragraph 53 identifies a minimum set of indicators, but the list is not exhaustive

We consider that the set of minimum indicators in paragraph 53 should be extended to include considerations relevant to intangible assets and goodwill.

We also consider that any changes in the technological, legal or government policy environment in the near future would have to be certain in order to result in a reversal of an impairment loss.

(k) the proposal to estimate an asset's recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 52)

We agree with this proposal.

(l) the proposal to recognize a reversal of an impairment loss if, and only if, there has been a change in estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized, and increase the asset's carrying amount to its recoverable service amount subject to the ceiling set in paragraph 61 (paragraphs 58, 61 and 62); and

We agree with these proposals.

(m) the proposal to make disclosures as set out in paragraphs 65 and 68 – 70.

We agree with the proposals

LATE SUBMISSIONS



HM TREASURY

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The Technical Director
Public Sector Committee
545 Fifth Avenue, 14th Floor
New York, New York 10017

26 January 2004

Dear Director

Exposure Draft 23 - Impairment of Assets: By email

1. I attach a response from the UK Treasury to the International Federation of Accountants Public Sector Committee (IFAC PSC) exposure draft entitled *Impairment of Assets*.
2. We welcome the work of IFAC PSC in trying to achieve greater consistency in public sector financial reporting and in providing a collective forum for dealing with specific public sector issues. As stated in previous correspondence, the UK has no plans to adopt International Public Sector Accounting Standards directly but they are likely to assume greater importance as financial reporting in the UK public sector addresses convergence with international financial reporting standards. We are keen to play an active and constructive role in their development.
3. However we are concerned about the lack of a clear framework in international accounting standards for operating a current value accounting basis. Since all UK government assets are valued on a current value basis, we represent probably one of the biggest users of this treatment in the world and it is critical to us that the valuation basis is the best possible. We do not believe that this exposure draft helps to clarify or improve the current standards for operating a current value accounting basis by excluding assets carried at fair value (to use IAS terminology) from its scope.
4. We are not convinced that the International Accounting Standards Board's use of fair value is correct and we support the continuing efforts of the UK Accounting Standards Board to replace this with deprival value as used in the UK. We are also not convinced that fair value usually means market value in the public sector context. We therefore welcome the recognition in this exposure draft that value in use is an important component in the valuation of assets in the public sector and that value in use is often measured using depreciated replacement cost. In this context, it is worth noting that we are working with the Royal Institute of

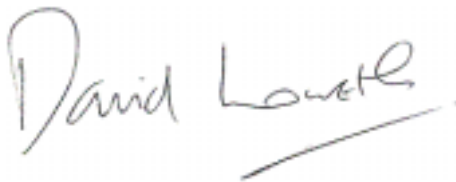


INVESTOR IN PEOPLE

Chartered Surveyors Public Sector Valuation Group to look at this issue in the UK.

5. Our full response is attached in two parts:
 - An explanation of the rationale for using current valuations in the UK central government sector and why value in use valuations are important.
 - A detailed point by point response to the consultation questions.
6. I would like to thank you for this opportunity to comment on your proposals and look forward to seeing the final outcome.

Yours sincerely,

A handwritten signature in dark ink, reading "David Loweth". The signature is written in a cursive style with a long horizontal stroke at the end.

David Loweth

Response of HM Treasury, UK to the International Federation of Accountants Public Sector Committee Exposure Draft No.23 *Impairment of Assets*

Introduction

1. The International Federation of Accountants Public Sector Committee (IFAC PSC) issued Exposure Draft 23 on Impairment of Assets in September 2003. This is the response of HM Treasury in the United Kingdom.
2. This response is in two parts – an explanation of the UK government's approach to the valuation of assets and a point by point response to the exposure draft.
3. At the current time we do not accept the International Accounting Standards Board's use of fair value to value assets and instead support the UK Accounting Standards Board preference for deprival value. However, this response tries to be constructive, taking the use of fair value as read and focusing instead on the particular problems caused by inconsistencies between IPSAS 17 and this exposure draft.

Overview

4. While the UK has no plans to adopt International Public Sector Accounting Standards directly, they are likely to assume greater importance as we address convergence with international financial reporting standards. We therefore support the principle of their development which should lead to greater comparability of public sector financial reporting. We also believe that collective action is the best way to reach solutions to public sector issues such as accounting for tax and social security.
5. We are concerned, though, about the lack of a clear framework in international accounting standards for operating a current value accounting basis. We believe that the IPSAS 17 assertion that 'the fair value of items of property, plant and equipment is usually their market value' is inaccurate.¹ In the public sector market is often not appropriate and this exposure draft recognises this fact by allowing assets to be carried at the higher of net selling price (market value) or value in use (depreciated replacement cost). In doing this, the exposure draft is a useful contribution to the debate.
6. Nevertheless, the assumption in paragraph 7 that impairment is not an issue for non-cash generating assets carried at fair value is incorrect. This assumes that valuations are revisited on an annual basis – which is impractical as it would impose an excessive burden – and are carried out on a relevant basis – which adoption of IPSAS 17 would prevent. It is also inconsistent with existing

¹ IPSAS 17, n. 40

international practice (in International Accounting Standard 36) and UK practice (in Financial Reporting Standard 11).

7. In the medium term we would welcome efforts to revisit IPSAS 17 to make it more relevant to the public sector. However, for the foreseeable future it is necessary for public sector assets, valued at current or fair value, to be included within impairment standards.

UK Central Government Approach to Asset Valuation

Background

8. In the interests of fiscal stability, UK central government accounting practice aims to use the best available accounting framework to cost the provision of services. This furthers:
 - Transparency by ensuring the regular reporting of the cost of service provision
 - Stability by ensuring that the cost of services is measured on a consistent basis year on year
 - Responsibility by ensuring that the management of assets, liabilities and risks can take a long term view
 - Fairness so that today's and tomorrow's generation bears the appropriate level of cost
 - Efficiency by creating the right incentives for managers to manage costs
9. To support this, the UK central government accounting framework requires that assets are carried at current values as assessed by professional valuation methods or the use of indices as an approximation (called the modified historic cost approach).
10. In addition to depreciation, departments have to include an annual cost of capital charge in their financial statements. Since departments have to bid in advance for funding to cover these, the system creates incentives for departments to choose efficient means of managing their asset base. This will include balancing maintenance costs against possible impairment charges, not holding obsolete or unused assets, and seeking out alternative forms of finance such as sale and leaseback where these are cheaper. This all means that long term viability can be considered in the making of efficient and effective decisions on service provision.
11. In this environment, it is very important that the current value of the asset is properly reflected in the accounts and that perverse incentives are not created by the use of outdated or inappropriate values. This means that valuation

techniques have to be realistic in their appraisal of existing and alternative uses of the asset.

Appraisal of current international valuation techniques

12. Taking the international accounting standards position that current value means fair value as read, we do not agree that fair value in the public sector will usually constitute market value. This is for two reasons – a point of principle about market value in the public sector and a point of fact based on the incentives in certain circumstances.
13. Firstly, the public sector is not usually seeking to maximise profits. Instead the public sector is generally in the business of providing services. Market value assumes that all alternatives to the current pattern of service provision are available. In the provision of services this is not true. For example, government holds many specialised assets, such as hospitals and roads, for the general well being of the nation. It is generally not a realistic political option to sell these assets and so to use a valuation basis which allows for sale does not seem appropriate. Therefore from a point of principle market value is about creating different incentives to those that are needed in the public sector.
14. However, just because from a point of principle market value is incorrect, its use in many circumstances is still appropriate as the range of alternative methods of service provision is so vast as to be similar to the range of alternatives in the private sector. Indeed, we can identify only three circumstances where market value may not be appropriate in the public sector:
 - Assets where sale is not a politically realistic option such as heritage assets.
 - Highly specialised assets where sale is not possible without considerable modification such as military bases or nuclear facilities.
 - Assets involved in front line service delivery where alternative location of the assets would seriously infringe effective service delivery such as hospitals, schools, embassies, libraries and social housing.
15. It is this last condition that is most difficult to apply in the light of current international standards as realistic and readily obtainable market values may exist.
16. To take an example, a benefits office has very little that is specialised about it and obtaining a market valuation is relatively easy. However, if the office is to serve the needs of its client base it is not realistic for the asset to be located in a different property market. Where market valuation significantly differs from value in use of the asset then using market valuation suggests to management that the asset should be relocated or discontinued altogether. Where alternative locations are not an available option the market signals cannot be acted upon but this is not reflected in the valuation. Using market valuation is therefore putting efficient

service delivery before effective service delivery. This would compromise overall service delivery.

17. For a wide range of other assets we accept that market value does seem like an acceptable valuation method. Location is not important, for example, to assets involved in the provision of cash generating services, back-office functions or services delivered electronically, say through call centres. For these then, market value may be acceptable even in the public sector environment.
18. We therefore believe that greater consideration needs to be given in international standards to when market value is and is not appropriate in the public sector environment.

Public sector approach

19. We believe that the important aspect in considering the public sector is to link valuation standards for the alternative accounting treatment more closely in to accounting standards that deal with impairment. We therefore believe that the PSC needs to take account of, and link to, the development of international standards on valuation. In the UK we are working with the Royal Institute of Chartered Surveyors Public Sector Valuation Group to look at the use of depreciated replacement cost and to develop additional guidance on the difficult valuation issues that this raises.
20. Impairment standards allow for assets to be carried at not more than the higher of net selling price or value in use. However, alternative accounting treatment standards currently emphasise only the net selling price side of this equation.
21. Greater consideration needs to be given to when a value in use valuation is appropriate under a current values system. In the public sector at least this will generally depend on the type of asset rather than the method which gives the highest value. Particular attention needs to be given to the large number of specialist assets in the public sector such as hospitals and roads.
22. We therefore suggest that the circumstances when a value in use valuation should be used in the public sector are those set out above namely:
 - Heritage assets which are never likely to be sold
 - Highly specialised assets which have zero sale value or sale can only be achieved at considerable cost
 - Assets of a non cash generating nature where location is a critical factor in the delivery of effective services
23. Adopting this would, we believe, result in a current values system of accounting that would create the right incentives for the operation of effective services in the government sector.

Detailed Point by Point Response

a) Scope of Standard

24. Existing UK and International Accounting Standards apply impairments to assets that are valued at current values under the allowed alternative use. In this context it seems strange to exclude assets valued at current cost from this standard.
25. We are concerned about inconsistencies that are emerging between valuation standards and impairment standards. Currently, IPSAS 17 states that 'the fair value of items of property, plant and equipment is usually their market value'.² We believe that this is wrong as in the public sector there are circumstances (as outlined above), where market value is not appropriate. Instead we believe that there needs to be greater recognition that in a public sector context fair value and value in use are often synonymous. This is the underlying message in this exposure draft but this message is lost by excluding current value assets from the scope of the proposed standard. We believe that this exclusion should be removed. As an alternative, coverage of the current basis of valuation in IPSAS 17 needs to be reviewed and updated to link better with the principles in the exposure draft.

b) Definition of cash generating assets

26. We agree with this definition.

c) Look for indicators of impairment at each reporting date

27. We agree with this proposal.

d) If indicators exist estimate recoverable service amount

28. We agree with this proposal.

e) Exclude decline in market value from the compulsory list of indicators

29. We agree with this proposal as it is consistent with our views that market value is not the only way to value an asset in the public sector. However, it is clearly inconsistent with IPSAS 17 that would value an asset usually on the basis of market value.

f) Whether changes (rather than cessation) in demand should be an indicator of impairment

30. We believe strongly that changes in demand for an asset should be included as a minimum indicator of impairment. Value in use needs to take some account of any obsolescence of the asset and it therefore follows that a drop in demand should lead to an impairment.

² IPSAS 17, n. 40

g) Measuring value in use

31. We agree with the proposal that depreciated replacement cost should be used to measure value in use.

h) Relationship between depreciated replacement cost and restoration cost or service units approach.

32. We are not valuation experts but our general understanding is that restoration cost or service units approach are different ways of getting to a depreciated replacement cost rather than completely different approaches.
33. We also believe that example 4 is not a particularly helpful example to use in the context.

i) Recognition of impairment losses

34. Where impairment losses represent a genuine erosion of economic use or reduction in service potential we agree that they should they be recognised as an expense in the statement of financial performance. In the UK, paragraph 3.2.23 of the Resource Accounting Manual (RAM) sets out a number of circumstances in which this would occur. That said, bearing in mind our earlier comments about the scope of this standard, we think that impairment losses should be recognised in the revaluation reserve to the extent that they reverse previous upwards revaluations. Under the current value framework adopted in the UK, impairments are only charged to performance statement to the extent that they reduce the asset's carrying value below its historic cost. The proposed standard should reflect this, which would bring it into line with paragraph 60 of IAS36.

j) Assessing whether there has been a reversal of a previous impairment loss

35. We agree with this proposal.

k) If indicators exist estimate recoverable service amount

36. We agree with this proposal.

l) Recognition of a reversal of impairment losses

37. We agree with this proposal subject to our comments above about the scope of this standard. A reversal of an impairment loss should only be recognised in the statement of financial performance to the extent that a previous impairment loss was so recognised. Where an impairment was recognised in the revaluation reserve then the reversal should also be recognised in the revaluation reserve.

m) Disclosures

We agree with this proposal.

ED 23 IMPAIRMENT OF ASSETS

Impairment of Assets

Proposed International Public Sector
Accounting Standard

Issued for
comment by
the International
Federation of
Accountants



This Exposure Draft was approved by the Public Sector Committee of the International Federation of Accountants.

Acknowledgment

This Exposure Draft of an International Public Sector Accounting Standard deals with the impairment of assets in the public sector. Extracts from International Accounting Standard IAS 36 (1998), *Impairment of Assets* are reproduced in this publication of the Public Sector Committee of the International Federation of Accountants with the permission of the International Accounting Standards Board (IASB). IAS 36 was published by the International Accounting Standards Committee (IASC). The IASB and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace the IASC. The International Accounting Standards (IASs) issued by the IASC remain in force until they are amended or withdrawn by the IASB.

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Internet: <http://www.iasb.org.uk>

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The approved text of this Exposure Draft is that published in the English language.

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New York, New York 10017
United States of America
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Commenting on this Exposure Draft

This Exposure Draft of the International Federation of Accountants was prepared by the Public Sector Committee. The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being issued in the form of an International Public Sector Accounting Standard.

Comments should be submitted in writing so as to be received by 31 January 2004. E-mail responses are preferred. All comments will be considered a matter of public record. Comments should be addressed to:

The Technical Director
Public Sector Committee
545 Fifth Avenue, 14th Floor
New York, New York 10017
United States of America

Fax: +1 (212) 286-9570
E-mail Address: EDComments@ifac.org

INTRODUCTION

Accounting Standards for the Public Sector

The International Federation of Accountants — Public Sector Committee (the Committee) is developing recommended accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The Committee recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs play a key role in enabling these benefits to be realized.

The IPSASs are based on the International Financial Reporting Standards (IFRSs), formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. The Committee is also developing IPSASs that deal with accounting issues in the public sector that are not addressed in the IFRSs or IASs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The Committee strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts. The Committee recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The Committee encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

Due Process and Timetable

An important part of the process of developing IPSASs is for the Committee to receive comments on the proposals set out in these Exposure Drafts from governments, public sector entities, auditors, standard-setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an Exposure Draft, inviting interested parties to provide their comments. Exposure Drafts will usually have a comment period of four months, although longer periods may be used for certain Exposure Drafts. Upon the closure of the comment period, the Committee will consider the comments received on the Exposure Draft and may modify

the proposed IPSAS in the light of the comments received before proceeding to issue a final Standard.

Background

The Committee issued an Invitation to Comment (ITC) *Impairment of Assets* in July 2000. The ITC identified the PSC's tentative views on the principles that should be applied for the recognition and measurement of impairment of assets held by public sector entities. The ITC was the first step in the due process that led to the development of this Exposure Draft.

The submissions received on the ITC reflected broad support for the general approach to impairment proposed by the Committee in that document. However, a number of respondents expressed concern about particular aspects of the impairment tests proposed. During 2001 and 2002, the Committee considered comments made by constituents in their submissions and a number of staff papers addressing constituents' concerns with the key issues set out in the ITC. A subcommittee of the PSC also considered the principles underpinning the determination of "value in use" for non-cash-generating assets and reported to the PSC in late 2002.

Purpose of the Exposure Draft

This Exposure Draft proposes requirements for the identification, recognition, measurement, reversal and disclosure of an impairment loss in respect of public sector assets.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by 31 January 2004. The Committee would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the issues in the Exposure Draft. Respondents are also invited to provide detailed comments on any other aspect of the Exposure Draft (including materials and examples contained in appendices) indicating the specific paragraph number or groups of paragraphs to which they relate. It would be helpful to the PSC if these comments clearly explained the issue and suggested alternative wording, with supporting reasoning, where this is appropriate.

Specific Matters for Comment

The Committee would particularly value comment on:

ED 23 *Impairment of Assets*

- (a) the proposal to include in the scope of the proposed Standard, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of the Exposure Draft (ED). Paragraph 1 excludes:
 - (i) inventories;
 - (ii) assets arising from construction contracts;
 - (iii) financial assets included in the scope of International Public Sector Accounting Standard IPSAS 15 *Financial Instruments: Disclosure and Presentation*;
 - (iv) investment property that is measured at fair value under International Public Sector Accounting Standard IPSAS 16 *Investment Property*, and non-cash-generating property, plant and equipment measured at fair value under International Public Sector Accounting Standard IPSAS 17 *Property, Plant and Equipment*; and
 - (v) other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard;
- (b) the proposal to define cash-generating assets as assets held by:
 - (i) Government Business Enterprises (GBEs); and
 - (ii) public sector entities other than GBEs to generate a commercial rate of return (paragraph 13);
- (c) the proposal to assess at each reporting date whether there is an indicator that an asset may be impaired. Paragraph 20 identifies a minimum set of indicators, but the list is not exhaustive;
- (d) the proposal to estimate an asset's recoverable service amount when an indicator of impairment is present at the reporting date (paragraph 19);
- (e) the proposal to exclude the decline in market value from the list of minimum indicators set out in black letter in paragraph 20 but indicate in commentary that it may be an indicator (paragraph 21);
- (f) whether the Standard should include:
 - (i) a reduction (other than cessation) in demand or need for services provided by the asset as an indicator of impairment in the minimum set of indicators identified by paragraph 20; and

- (ii) an increase in demand or need for services provided by the asset from a previously reduced (but positive) level as an indicator of the reversal of impairment loss in the minimum set of indicators identified by paragraph 53;
- (g) the proposal to measure the value in use of a non-cash-generating asset using the depreciated replacement cost, restoration cost or service units approaches as appropriate (paragraph 36);
- (h) whether the three approaches to determination of value in use set out in paragraphs 37 to 41 are separate approaches as in the ED, or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches;
- (i) the proposal to recognize an impairment loss and reduce the carrying amount of the asset to its recoverable service amount, when the asset's recoverable service amount is less than its carrying amount (paragraphs 45 and 47);
- (j) the proposal to assess at each reporting date whether there is an indicator that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased. Paragraph 53 identifies a minimum set of indicators, but the list is not exhaustive;
- (k) the proposal to estimate an asset's recoverable service amount when annual assessments indicate that a previous loss no longer exists or has decreased (paragraph 52);
- (l) the proposal to recognize a reversal of an impairment loss if, and only if, there has been a change in estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized, and increase the asset's carrying amount to its recoverable service amount subject to the ceiling set in paragraph 61 (paragraphs 58, 61 and 62); and
- (m) the proposal to make disclosures as set out in paragraphs 65 and 68 – 70.

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International Public Sector Accounting Standard IPSAS XX

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ED 23 *Impairment of Assets*

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS XX

Impairment of Assets

The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards”. International Public Sector Accounting Standards are not intended to apply to immaterial items.

Objective

The objective of this Standard is to prescribe the procedures that an entity applies to determine whether an asset is impaired and to ensure that impairment losses are recognized. The Standard also specifies when an entity should reverse an impairment loss and prescribes certain disclosures for impaired assets.

Scope

1. *An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for impairment of all assets, except:*
 - (a) *inventories (see International Public Sector Accounting Standard IPSAS 12 Inventories);*
 - (b) *assets arising from construction contracts (see International Public Sector Accounting Standard IPSAS 11 Construction Contracts);*
 - (c) *financial assets that are included in the scope of International Public Sector Accounting Standard IPSAS 15 Financial Instruments: Disclosure and Presentation;*
 - (d) *investment property and non-cash-generating property, plant and equipment that are measured at fair value (see International Public Sector Accounting Standard IPSAS 16 Investment Property and International Public Sector Accounting Standard IPSAS 17 Property, Plant and Equipment); and*

- (e) *other assets in respect of which accounting requirements for impairment are included in another International Public Sector Accounting Standard.*
2. *This Standard applies to all public sector entities other than Government Business Enterprises.*
3. *Public sector entities that hold cash-generating assets as defined in paragraph 13 should apply International Accounting Standard IAS 36, Impairment of Assets to such assets. Public sector entities that hold non-cash-generating assets should apply the requirements of this Standard to non-cash-generating assets.*
4. This Standard excludes from its scope the impairment of assets that are dealt with in another International Public Sector Accounting Standard. Government Business Enterprises (GBEs) apply IAS 36 and therefore are not subject to the provisions of this Standard. Public sector entities other than GBEs apply IAS 36 to their cash-generating assets and apply this Standard to their non-cash-generating assets. Paragraphs 5 to 12 explain the scope of the Standard in greater detail.

Exclusions from the scope

5. This Standard does not apply to inventories and assets arising from construction contracts because existing International Public Sector Accounting Standards applicable to these assets already contain specific requirements for recognizing and measuring these assets.
6. This Standard does not require the application of an impairment test to an investment property that is carried at fair value under International Public Sector Accounting Standard IPSAS 16 *Investment Property*. This is because under the fair value model in IPSAS 16, an investment property is carried at fair value at the reporting date and any impairment will be taken into account in the valuation.
7. This Standard does not require the application of an impairment test to non-cash-generating assets that are carried at fair value under the allowed alternative treatment in International Public Sector Accounting Standard IPSAS 17 *Property, Plant and Equipment*. This is because under the allowed alternative treatment in IPSAS 17, assets will be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value as at the reporting date and any impairment will be taken into account in the valuation.

8. Consistent with the requirements of paragraph 3 above, property, plant and equipment that are classified as cash-generating assets and are carried at fair value under the allowed alternative treatment in IPSAS 17 are dealt with under IAS 36.
9. This Standard does not apply to financial assets that are included in the scope of International Public Sector Accounting Standard IPSAS 15 *Financial Instruments: Disclosure and Presentation*. Impairment of these assets will be dealt with in an International Public Sector Accounting Standard that the PSC intends to develop on the basis of International Accounting Standard IAS 39, *Financial Instruments: Recognition and Measurement* to deal with the recognition and measurement of financial instruments.
10. Investments in:
 - (a) controlled entities, as defined in IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities*;
 - (b) associates, as defined in IPSAS 7 *Accounting for Investments in Associates*; and
 - (c) joint ventures, as defined in IPSAS 8 *Financial Reporting of Interests in Joint Ventures*;

are financial assets that are excluded from the scope of IPSAS 15. Where such investments are classified as cash-generating assets, they are dealt with under IAS 36. Where these assets are in the nature of non-cash-generating assets, they are dealt with under this Standard.

Government Business Enterprises

11. The *Preface to International Financial Reporting Standards* issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. GBEs are defined in paragraph 13 below. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs and International Accounting Standards (IASs).
12. The International Accounting Standards Board (IASB) was established in 2001 to replace the International Accounting Standards Committee (IASC). The IASs issued by the IASC remain in force until they are amended or withdrawn by the IASB.

ED 23 Impairment of Assets

Definitions

13. *The following terms are used in this Standard with the meanings specified:*

Carrying amount is the amount at which an asset is recognized in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses.

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

Cash-generating assets are assets held by:

- (a) *public sector Government Business Enterprises (GBEs); and*
- (b) *public sector entities other than GBEs to generate a commercial rate of return.*

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Government Business Enterprise means an entity that has all the following characteristics:

- (a) *is an entity with the power to contract in its own name;*
- (b) *has been assigned the financial and operational authority to carry on a business;*
- (c) *sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;*

- (d) *is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and*
- (e) *is controlled by a public sector entity.*

An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of the asset exceeds its recoverable service amount.

Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. This is the fair value of the asset less the costs of selling.

Non-cash-generating assets are assets other than cash-generating assets.

Property, plant and equipment are tangible assets that:

- (a) *are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and*
- (b) *are expected to be used during more than one reporting period.*

Recoverable service amount is the higher of a non-cash-generating asset's net selling price and its value in use.

Useful life of property, plant and equipment is either:

- (a) *the period of time over which an asset is expected to be used by the entity; or*
- (b) *the number of production or similar units expected to be obtained from the asset by the entity.*

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Government Business Enterprises

- 14. Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from

entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge.

15. Assets held by GBEs are cash-generating assets. Public sector entities other than GBEs may hold assets to generate a commercial rate of return. For the purposes of this Standard, an asset held by a non-GBE public sector entity is classified as a cash-generating asset if the asset (or unit of which the asset is a part) operates with the objective of generating a commercial rate of return through the provision of services to external parties.

Impairment

16. This Standard defines an “impairment” as a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation. Impairment, therefore, reflects a decline in the utility of an asset to the entity that controls it. For example, an entity may have a purpose-built military storage facility that it no longer uses. In addition, because of the specialized nature of the facility and its location, it is unlikely that it can be leased out or sold and therefore the entity is unable to generate cash flows from the leasing or disposal of the asset. The asset is regarded as impaired because it is no longer capable of providing the entity with service potential — it has little, or no, utility for the entity in contributing to the achievement of its objectives.

Identifying an Asset that may be Impaired

17. Paragraphs 18 to 26 specify when recoverable service amount should be determined.
18. An asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. Paragraphs 20 to 24 identify key indicators that an impairment loss may have occurred: if any of those indications is present, an entity is required to make a formal estimate of recoverable service amount. If no indication of a potential impairment loss is present, this Standard does not require an entity to make a formal estimate of recoverable service amount.

19. *An entity should assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity should estimate the recoverable service amount of the asset.*

20. *In assessing whether there is any indication that an asset may be impaired, an entity should consider, as a minimum, the following indications:*

External sources of information

- (a) cessation of the demand or need for services provided by the asset;*
- (b) significant long-term changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates;*

Internal sources of information

- (c) evidence is available of physical damage of an asset;*
- (d) significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date;*
- (e) a decision to halt the construction of the asset before it is complete or in a usable condition; and*
- (f) evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.*

21. The list in paragraph 20 is not exhaustive. There may be other indicators that an asset may be impaired. The existence of other indicators would also require the entity to estimate the asset's recoverable service amount. For example, any of the following may be an indicator of impairment:

- (a) a significant decline in an asset's market value; or*

a reliable estimate of the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In this case, the recoverable service amount of the asset may be taken to be its value in use.

30. If there is no reason to believe that an asset's value in use materially exceeds its net selling price, the asset's recoverable service amount may be taken to be its net selling price. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of its net disposal proceeds. However, for many public sector non-cash-generating assets which are held on an ongoing basis to provide specialized services or public goods to the community, the value in use of the asset is likely to be greater than its net selling price.
31. In some cases, estimates, averages and computational shortcuts may provide a reasonable approximation of the detailed computations illustrated in this Standard for determining net selling price or value in use.

Net Selling Price

32. The best evidence of an asset's net selling price is a price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.
33. If there is no binding sale agreement but an asset is traded in an active market, net selling price is the asset's market price less the costs of disposal. The appropriate market price is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction may provide a basis from which to estimate net selling price, provided that there has not been a significant change in economic circumstances between the transaction date and the date at which the estimate is made.
34. If there is no binding sale agreement or active market for an asset, net selling price is based on the best information available to reflect the amount that an entity could obtain, at the reporting date, for the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry. Net selling price does not reflect a forced sale, unless management or the governing body is compelled to sell immediately.

- (b) a significant long-term decline (but not necessarily cessation) in the demand for or need for services provided by the asset.
- 22. The events or circumstances that may indicate an impairment of an asset will be significant and will often have prompted discussion by the governing board, management, or media. A change in a parameter such as demand for the service, extent or manner of use, legal environment or government policy environment would indicate impairment only if such a change was significant and had or was anticipated to have a long-term adverse effect. A change in the use of an asset during the period may also be an indicator of impairment. This may occur when, for example, a building used as a school undergoes a change in use and is used for storage. In assessing whether an impairment has occurred, the entity needs to assess changes in service potential over the long term. This underlines the fact that the changes are seen within the context of the anticipated long-term use of the asset. However, the expectations of long-term use can change and the entity's assessments at each reporting date would reflect that. Appendix A sets out examples of impairment indicators referred to in paragraph 20.
- 23. In assessing whether there is a halt in construction for the purposes of triggering an impairment test, the entity would consider whether construction has simply been delayed or postponed, whether there is an intention to resume construction in the near future, or whether the circumstances are such that the construction work is not to be completed in the foreseeable future. Where the construction is delayed or postponed to a specific future date, the project could still be treated as work in progress and is not considered as halted.
- 24. Evidence from internal reporting that indicates that an asset may be impaired, as referred to in paragraph 20 (f) above, relates to the ability of the asset to provide goods or services rather than to a decline in the demand for the goods or services provided by the asset. This includes the existence of:
 - (a) significantly higher costs of operating or maintaining the asset, compared with those originally budgeted; and
 - (b) significantly lower service or output levels provided by the asset compared with those originally expected due to poor operating performance.

A significant increase in operating costs of an asset may indicate that the asset is not as efficient or productive as initially

anticipated in output standards set by the manufacturer, in accordance with which the operating budget was drawn up. Similarly, a significant increase in maintenance costs may indicate that higher costs need to be incurred to maintain the asset's performance at a level indicated by its most recently assessed standard of performance. In other cases, direct quantitative evidence of an impairment may be indicated by a significant long-term fall in the expected service or output levels provided by the asset.

25. The concept of materiality applies in identifying whether the recoverable service amount of an asset needs to be estimated. For example, if previous assessments show that an asset's recoverable service amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable service amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable service amount is not sensitive to one (or more) of the indications listed in paragraph 20.
26. If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortization) method or the residual value for the asset need to be reviewed and adjusted under the International Public Sector Accounting Standard applicable to the asset, even if no impairment loss is recognized for the asset.

Measurement of Recoverable Service Amount

27. This Standard defines recoverable service amount as the higher of an asset's net selling price and its value in use. Paragraphs 28 to 42 set out the requirements for measuring recoverable service amount.
28. It is not always necessary to determine both an asset's net selling price and its value in use. For example, if either of these amounts exceed the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.
29. It may be possible to determine an asset's net selling price, even if the asset is not traded in an active market. Paragraphs 33 and 34 set out possible alternative bases for estimating net selling price when an active market for the asset does not exist. However, in some circumstances it will not be possible to determine net selling price because there is no basis for making

35. Costs of disposal, other than those that have already been recognized as liabilities, are deducted in determining net selling price. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits (as defined in IAS 19, *Employee Benefits*¹) and costs associated with reducing or reorganizing a business following the disposal of an asset are not direct incremental costs to dispose of the asset.

Value in Use

36. This Standard defines the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using the approaches identified in paragraphs 37 to 41, as appropriate:

Depreciated replacement cost approach

37. Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.
38. The replacement cost and reproduction cost of an asset are determined on an "optimized" basis. The rationale is that the entity would not replace the asset with a like asset if the asset to be replaced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset.

¹ The PSC has included the development of an IPSAS on "employee benefits" in its work program. It is expected that the project will be activated after the completion of the review of IAS 19 by the IASB.

39. In certain cases, standby or surplus capacity is held for safety reasons. This arises from the need to ensure that adequate service capacity is available in the particular circumstances of the entity. For example, the fire department needs to have fire engines on standby to deliver services in emergencies. Such surplus or standby capacity is part of the required service potential of the asset.

Restoration cost approach

40. Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower. Paragraphs 37 and 38 include additional guidance on determining the replacement cost or reproduction cost of an asset.

Service units approach

41. Under this approach, the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Application of approaches

42. The choice of the most appropriate approach to measuring value in use depends on the availability of data and the nature of the impairment:
- (a) impairments identified from significant long-term changes in the technological, legal or government policy environment are generally measurable using a depreciated replacement cost approach or a service units approach;
 - (b) impairments identified from a significant long-term change in the extent or manner of use, including that identified from the cessation of demand, are generally

measurable using a depreciated replacement cost or a service units approach; and

- (c) impairments identified from physical damage are generally measurable using a restoration cost approach.
43. Appendix B sets out examples of various approaches that may be used to determine the value in use of a non-cash-generating asset.

Recognition and Measurement of an Impairment Loss

44. Paragraphs 45 to 50 set out the requirements for recognizing and measuring impairment losses for an asset.
45. ***If, and only if, the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable service amount. That reduction is an impairment loss.***
46. As noted in paragraph 18, this Standard requires an entity to make a formal estimate of recoverable service amount only if an indication of a potential impairment loss is present. Paragraphs 20 to 24 identify key indicators that an impairment loss may have occurred.
47. ***An impairment loss should be recognized as an expense in the statement of financial performance immediately.***
48. ***When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity should recognize a liability if, and only if, required by another International Public Sector Accounting Standard.***
49. Where the estimated impairment loss is greater than the carrying amount of the asset, the carrying amount of the asset is reduced to zero with a corresponding expense recognized. A liability would be recognized only if another International Public Sector Accounting Standard so requires. An example is when a purpose-built military installation is no longer used and the entity is required by law to remove such installations if not usable. The entity may need to make a provision for dismantling costs if required by the International Public Sector Accounting Standard IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

50. *After the recognition of an impairment loss, the depreciation (amortization) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.*

Reversal of an Impairment Loss

51. Paragraphs 52 to 63 set out the requirements for reversing an impairment loss recognized for an asset in prior years.
52. *An entity should assess at each reporting date whether there is any indication that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the entity should estimate the recoverable service amount of that asset.*
53. *In assessing whether there is any indication that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased, an entity should consider, as a minimum, the following indications:*

External sources of information

- (a) *resurgence of the demand or need for services provided by the asset;*
- (b) *significant long-term changes with a favorable effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal or government policy environment in which the entity operates;*

Internal sources of information

- (c) *significant long-term changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include capital expenditure incurred during the period to improve or enhance an asset in excess of its most recently assessed standard of performance or a commitment to discontinue or restructure the operation to which the asset belongs;*

- (d) *a decision to resume construction of the asset that was previously halted before it was complete or in a usable condition; and*
 - (e) *evidence is available from internal reporting that indicates that the service performance of the asset is, or will be, significantly better than expected.*
- 54. Indications of a potential decrease in an impairment loss in paragraph 53 mirror the indications of a potential impairment loss in paragraph 20. The concept of materiality applies in identifying whether an impairment loss recognized for an asset in prior years may need to be reversed and the recoverable service amount of the asset determined.
- 55. The list in paragraph 53 is not exhaustive. An entity may identify other indications of a reversal of an impairment loss that would also require the entity to re-estimate the asset's recoverable service amount. For example, any of the following may be an indicator that the impairment loss may have reversed:
 - (a) a significant rise in an asset's market value; or
 - (b) a significant long-term increase in the demand or need for the services provided by the asset.
- 56. A commitment to discontinue or restructure an operation in the near future is an indicator of a reversal of an impairment loss of an asset belonging to the operation where such a commitment constitutes a significant long-term change, with a favorable effect on the entity, in the extent or manner of use of that asset. Circumstances where such a commitment would be an indicator often relate to cases where the expected discontinuance or restructuring of the operation would create opportunities to enhance the utilization of the asset. An example is an x-ray machine that has been underutilized by a clinic managed by a public hospital and, as a result of discontinuance or restructuring, is expected to be transferred to the main radiology department of the hospital where it will have significantly better utilization. In such a case, the commitment to discontinue or restructure the clinic's operation may be an indicator that an impairment loss recognized for the asset in prior years may have to be reversed.
- 57. If there is an indication that an impairment loss recognized for an asset may no longer exist or may have decreased, this may indicate that the remaining useful life, the depreciation (amortization) method or the residual value may need to be

reviewed and adjusted in accordance with the International Public Sector Accounting Standard applicable to the asset, even if no impairment loss is reversed for the asset.

58. ***An impairment loss recognized for an asset in prior periods should be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset should, except as described in paragraph 61, be increased to its recoverable service amount. That increase is a reversal of an impairment loss.***
59. This Standard requires an entity to make a formal estimate of recoverable service amount only if an indication of a reversal of an impairment loss is present. Paragraphs 53 to 56 identify key indicators that an impairment loss recognized for an asset in prior years may no longer exist or may have decreased.
60. A reversal of an impairment loss reflects an increase in the estimated recoverable service amount of an asset, either from use or sale, since the date when an entity last recognized an impairment loss for that asset. An entity identifies the change in estimates that causes the increase in recoverable service amount. Examples of changes in estimates include:
- (a) a change in the basis for recoverable service amount (i.e., whether recoverable service amount is based on net selling price or value in use);
 - (b) if recoverable service amount was based on value in use, a change in estimate of the components of value in use; or
 - (c) if recoverable service amount was based on net selling price, a change in estimate of the components of net selling price.
61. ***The increased carrying amount of an asset due to a reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.***
62. ***A reversal of an impairment loss for an asset should be recognized as revenue in the statement of financial performance immediately.***

63. *After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.*

Redesignation of Assets

64. The redesignation of assets from cash-generating assets to non-cash-generating assets or from non-cash-generating assets to cash-generating assets, only occurs when there is clear evidence that such a redesignation is appropriate. A redesignation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss comes from, as a minimum, the listed indicators applicable to the asset after redesignation.

Disclosure

65. *For each class of assets, the financial statements should disclose:*
- (a) the amount of impairment losses recognized in the statement of financial performance during the period and the line item(s) of the statement of financial performance in which those impairment losses are included; and*
 - (b) the amount of reversals of impairment losses recognized in the statement of financial performance during the period and the line item(s) of the statement of financial performance in which those impairment losses are reversed.*
66. A class of assets is a grouping of assets of similar nature and use in an entity's operations.
67. The information required in paragraph 65 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant and equipment, at the beginning and end of the period, as required under IPSAS 17 *Property, Plant and Equipment*.

68. *An entity that applies International Public Sector Accounting Standard IPSAS 18 Segment Reporting, should disclose the following for each segment reported by the entity:*
- (a) the amount of impairment losses recognized in the statement of financial performance; and*
 - (b) the amount of reversals of impairment losses recognized in the statement of financial performance.*
69. *If an impairment loss for an asset is recognized or reversed during the period and is material to the financial statements of the reporting entity as a whole, an entity should disclose:*
- (a) the events and circumstances that led to the recognition or reversal of the impairment loss;*
 - (b) the amount of the impairment loss or reversal of impairment loss recognized;*
 - (c) the nature of the asset;*
 - (d) the segment to which the asset belongs, if the entity applies IPSAS 18;*
 - (e) whether the recoverable service amount of the asset is its net selling price or its value in use;*
 - (f) if the recoverable service amount is net selling price, the basis used to determine net selling price (such as whether selling price was determined by reference to an active market or in some other way); and*
 - (g) if the recoverable service amount is value in use, the approach used to determine value in use.*
70. *If impairment losses recognized (reversed) during the period are material in aggregate to the financial statements of the reporting entity as a whole, an entity should disclose a brief description of the following:*
- (a) the main classes of assets affected by impairment losses (reversals of impairment losses) for which no information is disclosed under paragraph 69; and*
 - (b) the main events and circumstances that led to the recognition (reversal) of these impairment losses for which no information is disclosed under paragraph 69.*

71. An entity is encouraged to disclose key assumptions used to determine the recoverable service amount of assets during the period.

Transitional Provisions

72. ***This Standard should be applied on a prospective basis only. Impairment losses (reversals of impairment losses) that result from adoption of this International Public Sector Accounting Standard should be recognized in accordance with this Standard (i.e., in the statement of financial performance).***
73. Before the adoption of this Standard, entities may have adopted accounting policies for the recognition and reversal of impairment losses. On adoption of this Standard, a change in accounting policy may arise. It would be difficult to determine the amount of adjustments resulting from a retrospective application of the change in accounting policy. Therefore, on adoption of this Standard, an entity does not apply the benchmark or the allowed alternative treatment for other changes in accounting policies in International Public Sector Accounting Standard IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*.

Effective Date

74. ***This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after XX Month Year. Earlier application is encouraged.***
75. When an entity adopts the accrual basis of accounting as defined by International Public Sector Accounting Standards for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Appendix A

Indicators of Impairment — Examples

This appendix sets out examples of impairment indicators discussed in the Standard to assist in clarifying their meaning. It does not form part of the standards.

External sources of information

(a) Cessation of the demand or need for services provided by the asset.

The asset still maintains the same service potential, but demand for that service has ceased. Examples of assets impaired in this manner include:

- (i) A school closed because of a lack of demand for school services arising from a population shift to other areas. It is not anticipated that this demographic trend affecting the demand for the school services will reverse in the foreseeable future;
- (ii) A railway line closed due to lack of patronage (for example, the population in a rural area has substantially moved to the city due to successive years of drought and those that have stayed behind use the cheaper bus service); and
- (iii) A convention center or stadium whose principal lessee does not renew its lease with the result that the facility is expected to close.

(b) Significant long-term changes in the technological environment with an adverse effect on the entity.

The service utility of an asset may be reduced if technology has advanced to produce alternatives that provide better or more efficient service. Examples of assets impaired in this manner are:

- (i) Medical diagnostic equipment that is rarely or never used because a newer machine embodying more advanced technology provides more accurate results (would also meet indicator (a) above);
- (ii) Software that is no longer being supported by the external supplier because of technological advances and the entity does not have the personnel to maintain the software; and
- (iii) Computer hardware that has become obsolete as the result of technological development.

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(c) Significant long-term changes in the legal or government policy environment.

An asset's service potential may be reduced as a result of a change in a law or regulation. Examples of impairments identified by this indicator include:

- (i) An automobile that does not meet new emission standards or a plane that does not meet new noise standards;
- (ii) A school that can no longer be used for instruction purposes due to new safety regulations regarding its building materials or emergency exit procedure; and
- (iii) A drinking water plant that cannot be used because it does not meet new environmental standards.

Internal sources of information

(d) Evidence is available of physical damage of an asset.

Physical damage would likely result in the asset being unable to provide the level of service that it once was able to provide. Examples of assets impaired in this way include:

- (i) A building damaged by fire or flood or other factors;
- (ii) A building that is closed due to identification of structural deficiencies;
- (iii) Sections of an elevated roadway that have sagged, indicating that that segment of roadway will need to be replaced in 15 years rather than the original design life of 30 years;
- (iv) A dam whose spillway has been reduced as a result of a structural assessment;
- (v) A water treatment plant whose capacity has been reduced by intake blockage and the removal of the blockage is not economical;
- (vi) A bridge that is weight-restricted due to identification of structural deficiencies;
- (vii) A navy destroyer damaged in a collision; and
- (viii) Equipment that is damaged and can no longer be repaired or for which repairs are not economically feasible.

- (e) **Significant long-term changes in the extent to which an asset is used, or is expected to be used, with an adverse effect on the entity.**

If an asset is not being used to the same degree as it was when originally put into service or the expected useful life of the asset is shorter than originally estimated, the asset may be impaired. An example of an asset that might be identified as potentially being impaired by this indicator is a mainframe computer that is underutilized because many applications have been converted or developed to operate on servers or PC platforms. A significant long-term decline in the demand for an asset's services may translate itself into a significant long-term change in the extent to which the asset is used.

- (f) **Significant long-term changes in the manner in which an asset is used, or is expected to be used, with an adverse effect on the entity.**

If the asset is not being used in the same way as it was when originally put into service, the asset may be impaired. An example of an impaired asset that might be identified by this indicator is a school building that is being used for storage rather than for educational purposes.

- (g) **A decision to halt the construction of the asset before it is complete or is in a usable condition.**

An asset that will not be completed cannot provide the service intended. Examples of assets impaired in this manner include those where:

- (i) Construction was stopped due to identification of an archaeological discovery or environmental condition such as nesting ground for a threatened or endangered species; and
- (ii) Construction was stopped due to a decline in the economy.

The circumstances that led to the halting of construction should also be considered. If construction is deferred, that is, postponed to a specific future date, the project could still be treated as work in progress and is not considered as halted.

- (h) **Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.**

Internal reports may indicate that an asset is not performing as expected or its performance is deteriorating over time. For example, an internal health department report on operations of a rural clinic may indicate that an x-ray machine used by the clinic is impaired because the cost of

maintaining the machine has significantly exceeded that originally budgeted.

Appendix B

Measurement of Impairment Loss — Examples

This appendix illustrates the application of the provisions of the Standard to assist in clarifying their meaning. It does not form part of the Standard. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of the Standard or to indicate the Committee's endorsement of the situations or methods illustrated. Application of the provisions of this Standard may require assessment of facts and circumstances other than those illustrated here.

Note: In the following examples, unless a net selling price is indicated, it is assumed that the net selling price of the asset tested for impairment is less than its value in use or is not determinable. Therefore, the asset's recoverable service amount is equal to its value in use.

Example 1: Depreciated Replacement Cost Approach

Significant Long-term Change with Adverse Effect on the Entity in the Technological Environment — Underutilized mainframe computer

In 1999, the City of Kermann purchased a new mainframe computer at a cost of 10 million currency units. Kermann estimated that the useful life of the computer would be seven years and that on average 80 percent of central processing unit (CPU) capacity would be used by the various departments. A buffer of excess CPU time of 20 percent was expected and needed to accommodate scheduling jobs to meet peak period deadlines. Within a few months after acquisition, CPU usage reached 80 percent, but declined to 20 percent in 2003 because many applications of the departments were converted to run on desktop computers or servers. A computer is available on the market at a price of 500,000 currency units that can provide the remaining service potential of the mainframe computer using the remaining applications.

Evaluation of Impairment

The indicator of impairment is the significant long-term change in technological environment resulting in conversion of applications from the mainframe to other platforms and therefore decreased usage of the mainframe computer. (Alternatively it can be argued that a significant decline in the extent of use of the mainframe indicates impairment.) Impairment loss is determined using the depreciated replacement cost approach as follows:

a	Acquisition cost, 1999	10,000,000
	Accumulated depreciation, 2003 (a x 4 / 7)	<u>5,714,286</u>
b	Carrying amount, 2003	<u><u>4,285,714</u></u>
c	Replacement cost	500,000
	Accumulated depreciation(c x 4 / 7)	<u>285,714</u>
d	Depreciated replacement cost	<u><u>214,286</u></u>
	Impairment loss (b – d)	<u><u>4,071,428</u></u>

Example 2: Depreciated Replacement Cost Approach

Significant Long-term Change with Adverse Effect on the Entity in the Manner of Use — School used as warehouse

In 1997, Lunden School District constructed an elementary school at a cost of 10 million currency units. The estimated useful life of the school is fifty years. In 2003, the school is closed because enrolments in the district declined unexpectedly due to a population shift caused by the bankruptcy of a major employer in the area. The school is converted to use as a storage warehouse, and Lunden School District has no evidence that enrolments will increase in the future such that the building would be reopened for use as a school. The current replacement cost for a warehouse of the same size as the school is 4.2 million currency units.

Evaluation of Impairment

Impairment is indicated because the purpose for which the building is used has changed significantly from a place for instructing students to a storage facility and this is not anticipated to change for the foreseeable future. An impairment loss using depreciated replacement cost approach would be determined as follows:

a	Historical cost, 1997	10,000,000
	Accumulated depreciation, 2003 (a x 6 / 50)	1,200,000
b	Carrying amount, 2003	8,800,000
c	Replacement cost	4,200,000
	Accumulated depreciation (c x 6 / 50)	504,000
d	Depreciated replacement cost	3,696,000
	Impairment loss (b - d)	5,104,000

Example 3: Depreciated Replacement Cost Approach

Significant Long-term Change with Adverse Effect on the Entity in the Extent of Use — School partially closed due to decline in enrolment

In 1983, the Lutton School District constructed a school at the cost of 2.5 million currency units. The entity estimated the school would be used

for 40 years. In 2003, the enrolment declined from 1000 to 200 students as the result of population shift caused by the bankruptcy of a major employer in the area. The management decided to close the top two floors of the three story school building. The current replacement cost of the one-storey school is estimated at 1.3 million currency units.

Evaluation of Impairment

Impairment is indicated because the extent of use of the school has changed from three floors to one floor as the result of reduction in the number of students from 1000 to 200 students. The reduction in the extent of use is significant and the enrolment is expected to remain at the reduced level for the foreseeable future. Impairment loss using depreciated replacement cost approach would be determined as follows:

a	Acquisition cost, 1983	2,500,000
	Accumulated depreciation, 2003 (a x 20 / 40)	<u>1,250,000</u>
b	Carrying amount, 2003	<u><u>1,250,000</u></u>
c	Replacement cost	1,300,000
	Accumulated depreciation (c x 20 / 40)	<u>650,000</u>
d	Depreciated replacement cost	<u><u>650,000</u></u>
	Impairment loss (b - d)	<u><u>600,000</u></u>

Example 4: Restoration Cost Approach

Physical Damage — School bus damaged in road accident

In 1998, North District Primary School acquired a bus at the cost of 200,000 currency units to help students from a nearby village to commute free of charge. The school estimated a useful life of 10 years for the bus. In 2003, the bus sustained damage in a road accident requiring 40,000 currency units to be restored to a usable condition. The restoration will not affect the useful life of the asset. The cost of a new bus to deliver a similar service is 250,000 currency units in 2003.

Evaluation of Impairment

Impairment is indicated because the bus has sustained physical damage in the road accident. Impairment loss using the restoration cost approach would be determined as follows:

a	Acquisition cost, 1998	200,000
	Accumulated depreciation, 2003 ($a \times 5 / 10$)	100,000
b	Carrying amount, 2003	100,000
c	Replacement cost	250,000
	Accumulated depreciation ($c \times 5 / 10$)	125,000
d	Depreciated replacement cost (undamaged state)	125,000
	Less: restoration cost	40,000
e	Depreciated replacement cost (damaged state)	85,000
	Impairment loss ($b - e$)	15,000

Example 5: Restoration Cost Approach

Physical Damage — Building damaged by fire

In 1984, the City of Moorland built an office building at a cost of 50 million currency units. The building was expected to provide service for 40 years. In 2003, after 19 years of use, fire caused severe structural problems. Due to safety reasons, the office building is closed and structural repairs costing 35.5 million currency units are to be made to restore the office building to an occupiable condition. Assume that all the restoration costs are capitalizable. The replacement cost of a new office building is 100 million currency units.

Evaluation of Impairment

Impairment is indicated because the office building has sustained physical damage due to fire at the premises. Impairment loss using restoration cost approach would be determined as follows:

a	Acquisition cost, 1984	50,000,000
	Accumulated depreciation, 2003 (a x 19 / 40)	<u>23,750,000</u>
b	Carrying amount, 2003	<u><u>26,250,000</u></u>
c	Replacement cost (of a new building)	100,000,000
d	Accumulated depreciation (c x 19 / 40)	<u>47,500,000</u>
	Depreciated replacement cost (undamaged)	52,500,000
	Less: restoration cost	<u>35,500,000</u>
e	Depreciated replacement cost (in damaged state)	<u><u>17,000,000</u></u>
	Impairment loss (b– e)	<u><u>9,250,000</u></u>

Example 6: Service Units Approach

Significant Long-term Change with Adverse Effect on the Entity in the Extent of Use — High rise building partially unoccupied for the foreseeable future

In 1988, Ormong City Council constructed a 20-storey office building for use by the Council in downtown Ormong at the cost of 80 million currency units. The building is expected to have a useful life of 40 years. In 2003, Federal Safety Regulations required that the top 4 storeys of high-rise buildings should be left unoccupied for the foreseeable future. The building has a net selling price of 45 million currency units in 2003 after regulations came into force. The current replacement cost of a similar 20-storey building is 85 million currency units.

Evaluation of Impairment

Impairment is indicated because the extent of use of the office building has changed from 20 floors to 16 floors as the result of new Federal Safety Regulations. The reduction in the extent of use is significant and the occupation of the building is expected to remain at the reduced level (16 floors) for the foreseeable future. Impairment loss using the service units approach would be determined as follows:

a	Acquisition cost, 1988	80,000,000
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	Accumulated depreciation, 2003 (a x 15 / 40)	<u>30,000,000</u>
b	Carrying amount, 2003	<u>50,000,000</u>
c	Replacement cost (20-storey building)	85,000,000
	Accumulated depreciation (c x 15 / 40)	<u>31,875,000</u>
d	Depreciated replacement cost	<u>53,125,000</u>
e	Value in Use = Depreciated replacement cost of a 16-storey building (d x 16 / 20)	<u>42,500,000</u>
f	Net selling price of the building after regulation came into force	<u>45,000,000</u>
g	Recoverable service amount (higher of e and f)	<u>45,000,000</u>
	Impairment loss (b - g)	<u>5,000,000</u>

Example 7: Service Units Approach

Evidence from Internal Reporting — Higher cost of operating the printing machine

In 1998, Country X Education Department purchased a new printing machine at a cost of 40 million currency units. The Department estimated that the useful life of the machine would be 40 million copies of books to be printed over 10 years for use by elementary school students. In 2003, it was reported that an automated feature of the machine's function does not operate as expected resulting in a 25 percent reduction in the machine's annual output level over the remaining 5 years of the useful life of the asset. The replacement cost of a new printing machine is 45 million currency units in 2003.

Evaluation of Impairment

Impairment is indicated by evidence from internal reporting that the service performance of the printing machine is worse than it was expected. Circumstances suggest that the decline in the service potential of the asset is significant and of long-term nature. Impairment loss using service units approach is determined as follows:

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a	Acquisition cost, 1998	40,000,000
	Accumulated depreciation (a x 5 / 10)	<u>20,000,000</u>
b	Carrying amount, 2003	<u><u>20,000,000</u></u>
c	Replacement cost	45,000,000
	Accumulated depreciation (c x 5 / 10)	<u>22,500,000</u>
d	Depreciated replacement cost	<u><u>22,500,000</u></u>
e	Depreciated replacement cost of the remaining service potential (d x 75%)	<u><u>16,875,000</u></u>
	Impairment loss (b - e)	<u><u>3,125,000</u></u>

Appendix C

Basis for Conclusions

This appendix gives reasons for supporting or rejecting certain solutions related to accounting for impairment of assets.

Measurement of Recoverable Service Amount

- C1. The core accrual International Public Accounting Standards are based on the International Financial Reporting Standards (IFRSs), formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB) to the extent that the requirements of those Standards are applicable to the public sector. The proposals in this Exposure Draft (ED) are consistent with that policy. International Accounting Standard IAS 36, *Impairment of Assets* requires entities to determine the recoverable amount of an asset if there are indications that the asset is impaired. The recoverable amount of an asset is defined as the higher of value in use and net selling price of the asset.
- C2. As a prelude to this ED, the Invitation to Comment (ITC) *Impairment of Assets* issued in 2000 proposed an approach to accounting for impairment of the assets of public sector entities that applied IAS 36 to the extent that it was appropriate. This ED has been developed after consideration of responses to the ITC.

Cash-Generating Assets

- C3. IAS 36 requires an entity to determine value in use as the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. The service potential of cash-generating assets is reflected by their ability to generate future cash flows. This requirement is applicable to cash-generating assets held by public sector entities and the ED proposes the application of IAS 36 to account for impairment of cash-generating assets in the public sector.

Non-Cash-Generating Assets

- C4. In considering the principles underpinning a value in use concept applicable to non-cash-generating assets, the Committee agreed that the value in use of a non-cash-generating asset should be measured by reference to the present value of the

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remaining service potential of the asset. This replicates the approach taken by IAS 36.

Determination of Value in Use

- C5. The determination of the present value of the remaining service potential may be approached in a number of ways. One approach that replicates IAS 36 involves estimating and discounting cash inflows that would have arisen had the entity sold its services or other outputs in the market. However, the Committee is of the view that it is unlikely that this approach could be used in practice due to the complexities involved in determining the appropriate prices at which to value the services or other output units and estimating the appropriate discount rate.
- C6. Other approaches reflect an implicit determination of value in use. In this respect, the Committee considered the market value, depreciated replacement cost, restoration cost and service units approaches.

Market value approach

- C7. Under this approach, where an active market exists for the asset, the value in use of the non-cash-generating asset is measured at the observable market value of the asset. Where an active market for the asset is not available, the entity uses the best available market evidence of the price at which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, having regard to the highest and best use of the asset for which market participants would be prepared to pay in the prevailing circumstances.

Depreciated replacement cost approach

- C8. Under this approach, the value in use of the asset is determined as the lowest cost at which the gross service potential embodied in the asset could be obtained in the normal course of operations less the value of the service potential already consumed. This approach assumes that the entity replaces the remaining service potential of the asset if it is deprived of it. An asset may be replaced either through reproduction (such as specialised assets) or through replacement of its gross service potential. Therefore, value in use is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired service potential of the asset.

Restoration cost approach

- C9. Under this approach, the value in use of the asset is determined by subtracting the estimated restoration cost of the asset from the market value or the replacement cost of the asset before impairment. This approach is usually used when impairments arise from physical damage.

Service units approach

- C10. This approach determines the value in use of the asset by reducing the market value or the replacement cost of the asset before impairment to conform to the reduced number of service units expected from the asset in its impaired state.

Approaches adopted

- C11. The Committee noted that the use of the observable market value as a proxy for value in use was redundant since market value differed from the net selling price (the other arm of the recoverable service amount estimate) only by the amount of selling costs involved, and therefore the market value would be effectively captured by the net selling price arm of impairment measurement. Accordingly, the Committee agreed that the value in use of a non-cash-generating asset should be measured using the depreciated replacement cost, the restoration cost or the service units approaches cited above as appropriate.

Goodwill and Other Intangibles

- C12. Currently there are no International Public Sector Accounting Standards dealing with goodwill and other intangible assets. International Accounting Standard IAS 22, *Business Combinations* deals with the goodwill that arises in a business combination and International Accounting Standard IAS 38, *Intangible Assets* deals with intangible assets.
- C13. This Standard has not excluded goodwill and other intangible assets from its scope. However, the Committee observed that goodwill as conventionally defined is not expected to arise in a non-cash-generating context. Moreover, public sector intangible assets such as those reflecting the entity's ability to issue licences often arise in a cash-generating context, and non-cash-generating intangible assets are envisaged to be of rare occurrence. IAS 36 deals with impairment of goodwill and other intangible assets as cash-generating assets.

Group of Assets and Corporate Assets

- C14. Under IAS 36, where it is not possible to determine the recoverable amount for an individual asset, then the recoverable amount for the asset's cash-generating unit (CGU) should be determined. The CGU is the smallest identifiable group of assets that generates cash inflows from continuing use, and that is largely independent of the cash inflows from other assets or groups of assets. The Committee considered the concept of a service-generating unit in a non-cash-generating context and noted that as the proposed requirements in the ED are applied to individual assets, the adoption of such a concept by analogy to the CGU concept in IAS 36 is unnecessary because it is possible to identify the service potential of individual assets. Moreover, its adoption would introduce undue complexities in accounting for impairment of non-cash-generating assets.
- C15. Under IAS 36, assets other than goodwill that contribute to the future cash flows of two or more CGUs are regarded as "corporate assets". In a cash-generating context, because corporate assets do not generate separate cash inflows, the impairment of corporate assets are dealt with as part of the impairment of the CGU to which the corporate assets belongs. The Committee observed that in a non-cash-generating context, the identification of such assets necessitates the adoption of the concept of service-generating unit which is not warranted, as noted in paragraph C14 above. The Committee further noted that such assets are often an integral part of the service delivery function and their impairment are to be dealt with as for any other non-cash-generating assets of the entity.

Property, Plant and Equipment

- C16. The Standard does not require the application of an impairment test to non-cash-generating assets that are carried at fair value under the allowed alternative treatment in International Public Sector Accounting Standard IPSAS 17 *Property, Plant and Equipment*. The Committee is of the view that under the allowed alternative treatment in IPSAS 17, assets will be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value as at the reporting date and any impairment will be taken into account in the valuation.
- C17. This Standard requires the impairment of cash-generating assets to be dealt with under IAS 36. IAS 36 applies to property, plant and equipment carried at fair value. Therefore, this Standard

does not exempt cash-generating property, plant and equipment carried at fair value from an impairment test.

Impairment of Non-Cash-Generating Assets Held by Government Business Enterprises

C18. This Standard requires that the impairment of all assets held by Government Business Enterprises (GBEs) be accounted for under IAS 36. GBEs are profit-oriented entities and the assets employed by them are primarily cash-generating assets. The Committee believes it is more appropriate to account for the impairment of non-cash-generating assets held by GBEs under IAS 36 for the following reasons:

- (a) Those GBE's that hold non-cash-generating assets do so to discharge their community service obligations as required by regulations. The acceptance of such obligations often acts as a precondition for engaging in profit-making operations. Accordingly, non-cash-generating assets are regarded as an integral part of cash-generating operations. An analogy may be drawn with additional expenditure that a private sector entity is required to incur for the installation of equipments to reduce the emission of harmful gases. Such expenditure is required under the safety regulations and cannot be avoided if the entity is to carry out its operations. As such, the incurrence of this expenditure is a precondition for the performance of activities and an integral part of the costs of operations;
- (b) Non-cash-generating assets held by GBEs to carry out their community service obligations are often not material compared with the cash-generating assets. In such cases, in addition to the reason noted in (a) above, cost benefit considerations may not warrant accounting for impairment of non-cash-generating assets separately; and
- (c) The *Preface to International Financial Reporting Standards* (2002) has made it clear that IASB Standards are to be applied by profit-oriented entities. GBEs are profit-oriented entities and are therefore required to comply with IFRSs and IASs. Individual International Public Sector Accounting Standards make it explicit that IASB Standards should be applied to GBEs.

Accordingly, non-cash-generating assets are expected to be appropriately grouped with cash-generating assets of GBEs to form a cash-generating unit to be tested for impairment in accordance with IAS 36.

Comparison with IAS 36

International Public Sector Accounting Standard IPSAS XX *Impairment of Assets* deals with the impairment of assets in the public sector. The main differences between IPSAS XX and International Accounting Standard IAS 36, *Impairment of Assets* are as follows:

- IPSAS XX deals with the impairment of assets of public sector entities while IAS 36 deals with the impairment of cash-generating assets of profit-oriented entities. IPSAS XX, however, requires that the impairment of cash-generating assets of public sector entities including those of Government Business Enterprises be accounted for under IAS 36.
- IPSAS XX does not apply to non-cash-generating assets carried at fair value at the reporting date under the allowed alternative treatment in International Public Sector Accounting Standard IPSAS 17 *Property, Plant and Equipment*. IAS 36 does not explicitly include a similar exclusion in respect of cash-generating property, plant and equipment carried at fair value at the reporting date
- The method of measurement of value in use of a non-cash-generating asset under IPSAS XX is different from that applied to a cash-generating asset under IAS 36. IPSAS XX measures the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential using a number of approaches. IAS 36 measures the value in use of a cash-generating asset as the present value of future cash flows from the asset.
- IPSAS XX does not give prominence to a change in the market value of the asset as an indicator of impairment. A decline in market value appears in black letter in IAS 36 as part of the minimum set of indicators of impairment while IPSAS XX refers to it in commentary.
- IPSAS XX includes a decision to halt the construction of an asset before completion as an indicator of impairment and the resumption of the construction of the asset as an indicator of reversal of the impairment loss. There are no equivalents in IAS 36.
- IPSAS XX deals with the impairment of individual assets. There is no equivalent in IPSAS XX for a cash-generating unit as defined in IAS 36.

- IPSAS XX deals with “corporate assets” in the same manner as other non-cash-generating assets while IAS 36 deals with them as part of related cash-generating units.
- IPSAS XX uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms “entity”, “revenue”, “recoverable service amount”, “statement of financial performance” and “statement of financial position” in IPSAS XX. The equivalent terms in IAS 36 are “enterprise”, “income”, “recoverable amount”, “income statement” and “balance sheet”.
- IPSAS XX contains many of the definitions of technical terms used in IAS 36 and an additional glossary of other defined terms.