

**REPORT TO IFAC - PUBLIC SECTOR SUBCOMMITTEE**

## Subcommittee Meeting to Consider:

Principles Underlying Determination of Value-In-Use of Not-for-Cash Flow Assets in the Public Sector and Application of These Principles to Impaired Assets

***Introduction***

As directed at the July PSC meeting (see extract of minutes at Agenda item 12.2) a subcommittee of PSC members and staff met in Norwalk Connecticut on 2 September 2002 to:

- discuss the basis on which value-in-use of a not-for-cash-flow asset of a public sector entity should be determined; and
- agree recommendations to make to the PSC for application in an exposure draft on impairment of assets.

***Attendees***

Those in attendance are identified below.

Australia – Ian Mackintosh

Canada – Erik Peters and Tim Beauchamp

UK – John Stanford

USA –David Bean

International Valuation Standards Committee (Public Sector Group) – Mark Gerold

GASB – Tom Allen and Roberta Reese

IFAC PSC Staff – Paul Sutcliffe

***Meeting Papers***

Papers for the meeting were prepared by all attendees. Robert Keys also prepared a paper identifying the current status of ED 104 *Impairment of Assets* in Australia.

Electronic versions of all the papers presented at the meeting, except the paper by the International Valuation Standards Committee (IVSC) are available on request. (Please note that for the most part these papers deal with matters that are encompassed by papers provided to previous PSC meetings or are included in the current agenda.)

***Meeting Process***

Staff outlined the background to the PSC project and each participant outlined the status of developments in their jurisdictions. Mark Gerold provided members with an overview of the requirements of relevant International Valuation Standards and outlined key factors and considerations that influenced practice. In this context, it was noted that valuation practice was directed at determining a current valuation of the asset within the terms specified in the engagement brief.

As a general approach, the subcommittee agreed that their starting point should be to follow the principles of IAS 36 as faithfully as possible, consistent with the overarching IPSAS approach to development of the accrual IPSASs. Members also noted that application of the IAS 36 principles in the not-for-cash public sector environment may prompt some variation to, or particular interpretations of, those principles. In addition, members agreed that they would raise points of concern about application of any of the principles of IAS 36 to public sector assets if/as they arose.

In the course of the discussion, the subcommittee acknowledged that how an impaired asset was to be measured may well have consequences for the indicators of impairment that might be considered as appropriate. The subcommittee explored and tested the way in which the indicators of impairment in the PSC Invitation to Comment (ITC) *Impairment of Assets* and in IAS 36 *Impairment of Assets* articulated with alternative approaches to the measurement of an impairment. The subcommittee also noted that the basis of measurement could also impact on views that might be held about other issues, such as whether all or only permanent impairments should be recognised.

The subcommittee's conclusions and recommendations on all these matters are identified below. In broad terms, the subcommittee was of the view that, as interpreted below, the principles of IAS 36 were applicable to not-for-cash assets in the public sector.

The agenda for the meeting is included as an attachment to this Report.

***Key Issue: Value-in-Use and the Measurement of an Impairment Loss***

IAS 36 requires that if the recoverable amount of an asset is less than its carrying amount:

- the carrying amount of the asset should be reduced to its recoverable amount; and
- the impairment loss should be recognised as an expense except where the asset is carried at a revalued amount under another IAS, in which case the impairment loss would be treated as a revaluation decrease.

Recoverable amount is defined as the higher of an asset's net selling price and its value-in-use. For IAS 36, value-in-use is determined by reference to the present value of the estimated future cash flows that are expected to arise from the continuing use of the asset and its ultimate disposal.

The subcommittee recommends to the PSC that the exposure draft should propose that whether or not an asset is impaired (and the determination of the amount of any impairment loss) should be determined by comparing the carrying amount of the asset with:

- *the higher of net selling price and value-in-use* where the asset has ongoing utility for the entity; and
- *the net selling price* if the asset has no ongoing utility for the entity (because in this case the value of the asset to the entity is only the proceeds of its sale).

The exposure draft should also make it clear that the assessment of impairment was to be based on the asset under consideration. For example, a building valuation would not include land (because land is seldom impaired—unless you have an environmental liability).

The subcommittee also recommends that key terms be defined in the following terms:

- *The carrying amount of an asset* is the amount at which the asset is recognised in the statement of financial position after deduction of any accumulated depreciation and accumulated impairment loss.

- *Net selling price* is the amount attainable from the sale of the asset in an arms length transaction between knowledgeable, willing parties, less the costs of disposal. This is the fair value of the asset less the costs of selling.

This approach (and these definitions) parallels IAS 36 and is therefore consistent with the strategy the PSC has adopted for development of its core IPSASs viz. to align with IASs unless there is a public sector specific reason to diverge from the IAS. However, the subcommittee recommends that value-in-use be described and measured in the following broad terms:

*Value-in-use* is the remaining service potential of an asset, measured at an amount consistent with the measurement model that is adopted by the entity for determining the carrying amount of assets.

This is a different explanation of value-in-use to that specified by IAS 36. It is a broad principle-based approach to the issue. The subcommittee believes it is appropriate because it reflects that in the public sector some assets may not be held/used for purposes of generating positive cash flows. It also reflects that different measurement models are adopted in the public sector and establishes the principles that are to be adopted in measuring value-in-use under those different models.

In arriving at this recommendation, the subcommittee noted that:

- The value-in-use of an asset should be determined by reference to its remaining service potential, and service potential was dependant on the purpose for which the asset was held/used. As such, the service potential and value-in-use of an asset held/used primarily for its ability to generate cash flows would quite appropriately be determined by reference to the present value of future cash flows. However, this approach was not necessarily appropriate for assets which were not held/used primarily for their ability to generate cash flows.
- Measurement difficulties could arise in determining the value-in-use of public sector assets that were not held/used for their ability to generate cash flows for the entity (or not held/used as part of a unit whose objective was to generate cash flows for the entity).
- Different asset measurement models were currently adopted by public sector entities in different jurisdictions to measure their assets. In some cases these models were consistent in reflecting a particular concept of capital maintenance and therefore provided a clear signal for the basis on which value-in-use is to be measured. However, in other cases they were a mixed model.

The subcommittee also noted that the basis of measurement of property, plant and equipment that could be adopted was prescribed in IPSAS 17 and, while this broad principle-based approach did provide some options in respect of the basis for measurement of value-in-use, those measurement bases would need to fit under the requirements of IPSAS 17.

The adoption of the principle-based approach as recommended by the subcommittee for determination of value-in-use means that where, for example, a particular jurisdiction applies to its property, plant and equipment:

- *a historical cost model that does not allow revaluations and is applied consistently on that basis* (i.e. a measurement model that uses the nominal financial capital maintenance concept) - value-in-use would be determined by reference to the historical cost of the

remaining service potential. The methodologies for determining the historical cost of remaining service potential being developed by GASB could be included as an appendix to any exposure draft developed by the PSC as guidance on determining the value-in-use for application in the historical cost model;

- *a current cost model which implicitly or explicitly reflects that maintenance of physical productive capacity is the notion of capital maintenance that is appropriate for property, plant and equipment* - value-in-use would be determined by reference to the current replacement cost of the remaining service potential (as noted at item 5 below, the subcommittee was of the view that an impairment test need not be applied in these cases);
- *a mixed historical cost model which combines certain features of the historical cost and current cost models identified above and specifies that assets should not be carried at an amount in excess of the current value of their remaining service potential* – when an impairment review of an asset is triggered in these models value-in-use in these would be determined by reference to the current replacement cost of the remaining service potential (that is, the amount the entity would need to forgo to replace the asset or the service potential represented by that asset if deprived of it).

The subcommittee noted that if another asset measurement model was adopted, value-in-use would be determined consistent with that model.

The subcommittee discussed practical issues in valuation under different models and how the remaining service capacity could be determined. Members noted that the methodologies being developed by GASB for determining the remaining service potential of assets were useful in this context. It was also noted that the practice of the valuation profession was to value the service potential provided by the asset. Consequently, an asset which was estimated to be utilized at an amount less than its full service potential capacity over its useful life would be valued on the basis of that “less than full capacity” take-up (in some jurisdictions this approach is known as an “optimised service capacity” value.)

### ***Recommendations of the SC re: Indicators of Impairment and Other Issues raised in the ITC***

1. A two step approach should be adopted and applied to all assets as proposed in the ITC
2. The indicators of impairment should reflect those in the ITC. The subcommittee also indicated agreement with the following amendments proposed by staff in materials presented at the Mauritius PSC meeting:
  - The expression/explanation of indicators should be amended to make clear that significant or substantial changes with adverse effect on the performance of the asset should be necessary to trigger an impairment review. The intent of these types of amendments being to provide a “safe harbour” against unnecessary reviews.
  - Include as an indicator of impairment evidence from internal reporting that indicates the service potential anticipated from (or performance of) an asset is or will be worse than expected. This indicator is to replicate requirements in IAS 36 as appropriate to the public sector. (Some members indicated a concern that including this as an indicator may inhibit experimentation with the reporting of internally generated performance measures.)

However, members also noted that the ITC and IAS 36 made it clear that the list of indicators specifically identified was not intended to be exhaustive. Therefore, whether or not internal evidence was specifically identified as an indicator, if evidence of an impairment was available from internal sources management would need to react.

Some members also expressed concern about the inclusion of the following indicators identified in the ITC. No clear recommendation for change emerged from the discussion of these matters, but all agreed they should be raised and discussed at the full PSC in the context of the recommendations regarding the measurement of an impairment loss. A number of members were of the view that these indicators should be retained but commentary in any exposure draft or IPSAS should explain that in the context of non-cash generating assets they would not necessarily trigger an impairment review:

- *A change in the extent to which an asset is used.* It was noted that the service potential provided by the asset may remain notwithstanding that the extent to which the asset had been used had declined in the current period, or a number of previous periods.
- *A decline in, or cessation of the demand or need for, the service provided.* The concern was primarily with the reference to “decline in” demand. All agreed that “cessation of” demand was an appropriate indicator of impairment.
- *A significant decline in the market-value of the asset.* The concern centred on whether a decline in the market value of an asset that was held for the delivery of “government” services was an appropriate indicator of impairment, particularly where those services were not provided on an exchange basis – in these cases the value of the service potential determined by the market and reflected in the market value of the asset may not reflect the utility of the asset to the entity.

There was also extended discussion of whether the GASB approach of establishing initial criteria related to “magnitude” and “uncertainty” should be adopted in the PSC-ED. While it was acknowledged that these were factors that may be important in determining whether an impairment review should be actioned, the subcommittee was of the view that they should not be established as separate criteria but would be encompassed in other specific criteria.

3. Additional guidance on the demarcation between depreciation and impairment should not be included in the exposure draft. Members noted that this was not included in IAS 36 and agreed IPSAS 17 *Property, Plant and Equipment* and ED/IPSAS on *Impairment* should be allowed to operate before concluding that the interaction between them gave rise to an issue that needed to be resolved.
4. IAS 36 should be applied to assets that are held with the primary objective of generating positive cash-flows (cash generating assets) or held as part of a cash generating unit. In these cases, the service potential of the assets is best reflected by their cash generating capacity. The demarcation line between assets that should be dealt with by IAS 36 and assets to be dealt with by the IPSAS should be as set out below:
  - Assets that are dealt with under IAS 36 (cash generating assets) should include:
    - (a) assets held by public sector business entities (GBEs), consistent with the PSC policy that GBEs apply IASs.

(b) assets of other public sector entities (non-GBEs) which are held with the primary objective of generating a profit or full cost recovery (i.e. positive or zero rate of return) over the long term. It was noted that this was necessary because in some jurisdictions government departments operate commercial arms/units.

- Assets other than those above are designated as not-for-cash-flow assets (or non cash generating assets), and should be dealt with under the proposed IPSAS on impairment of assets.

It was noted that some were of the view that the definition/explanation of cash generating assets should be more restrictive and apply only to assets that were held with the objective/intention of making a commercial rate of return.

5. Assets that are regularly revalued in accordance with the allowed alternative approach in IPSAS 17 *Property Plant and Equipment* would not be subject to an impairment test. This is because such assets will be carried at an amount that is not materially different from their fair value as at reporting date. This is a departure from IAS 36. While some members were cautious about this point, on balance the subcommittee was of the view that, within the context of the impairment test proposed for not-for-cash-flow assets and the requirements of IPSAS 17, the departure was justified because any impairment effects could reasonably be expected to be reflected in the revalued amount as at reporting date. (Note also that the IASB does have a separate project on revaluation, which may include consideration of this issue.)
- 6 The impairment requirements should apply in all cases, not just those in which the impairment loss was considered to be permanent. While some subcommittee members retained some concern about this matter, the subcommittee was of the view that the proposed principle-based approach to determination of an impairment loss overcame many of their major concerns. This was because under the principle-based approach if a consistent historical cost model was adopted, impairment losses would not be measured by reference to changes in market prices or replacement cost but at the historical (buying) cost of the remaining service potential. Value-in-use would also be estimated by reference to remaining service potential which would take into account expectations about service potential over the long term.

## ATTACHMENT

## IFAC - PUBLIC SECTOR COMMITTEE and GASB STAFF

A MEETING TO CONSIDER PRINCIPLES UNDERLYING DETERMINATION OF VALUE-  
IN-USE OF NON-CASH FLOW ASSETS IN THE PUBLIC SECTOR

## AND

## APPLICATION OF THESE PRINCIPLES TO IMPAIRED ASSETS

*Norwalk Connecticut on Monday 02 September 2002 from 8.30 am to 4.45pm.*

AGENDA	DOCUMENTS	DISCUSSION LEADER	TIME
<b>MONDAY</b>			
<b>1 WELCOME, APOLOGIES, OBJECTIVES</b> <i>Opening comments from the Chair. Objectives of the day: to develop recommendations for the consideration of the PSC at its November 2002 meeting.</i>		Ian Mackintosh	8.30-8:45am
<b>2 BACKGROUND CURRENT STATUS OF PSC PROJECT and GASB PROJECT</b> <i>Objective: to provide participants with the opportunity to identify any concerns they have with the current status of the PSC project.</i>  <i>Paul Sutcliffe will briefly outline the background and development of the project and the issues raised in the staff paper that was presented at the July PSC meeting.</i>  <i>David Bean and Roberta Reese will provide an update on recent GASB discussion.</i>	1. Extract of materials provided to latest GASB meeting.  2. PSC Invitation to Comment (item 14.4 from July PSC meeting.)  3. Staff Memorandum to PSC meeting July 02 (item 14.1 from July PSC meeting.)  4. The ITC and Key issues Paper approaches (item 14.9 from July 02 PSC meeting.)  5. Extract of minutes of PSC July 02 meeting  6. Summary of Indicators of Impairment (item 14.5 from July 02 PSC meeting.)  7. Summary of current requirements of Stds (item 14.6 from July 02 PSC meeting.)	Paul Sutcliffe, David Bean and Roberta Reese  General Discussion	8.45am–10am

AGENDA	DOCUMENTS	DISCUSSION LEADER	TIME
<b>Morning Tea</b>			10.00 - 10.15 am
<p><b>3 PERSPECTIVES FROM THE UK, CANADA and AUSTRALIA</b></p> <p><i>Objective: to gain an understanding of latest developments in these jurisdictions and to consider how they “fit” with the PSC work.</i></p> <p><i>John Stanford will brief the group on relevant requirements/implications of the UK ASB Framework and FRSS and the requirements of the Resource Accounting and Budgeting (RAB) framework adopted by the UK Treasury.</i></p> <p><i>Erik Peters will provide an update on the current position in Canada and likely future developments in Canada including matters being/to be addressed by the CICA- PSAB</i></p> <p><i>A brief paper on the Australian situation is being prepared by Robert Keys.</i></p>	<p>8. Paper on definition and application of “value-in-use” adopted in UK. <b>(To follow)</b></p> <p>9. Paper providing a brief overview on Canadian status and initiatives. <b>(To follow)</b></p> <p>10. Paper outlining status of Australian ED 104 and related deliberations.</p>	<p>John Stanford Erik Peters and Ian Mackintosh</p> <p>General Discussion</p>	10.15 am- 11.15am
<p><b>4 INTERNATIONAL VALUATION STANDARDS COMMITTEE (IVSC): VALUATION STANDARDS, GUIDANCE AND PERSPECTIVES</b></p> <p><i>Objective: to gain an understanding of valuation issues and implications for PSC ED.</i></p> <p><i>Mark Gerold of the IVSC will brief participants on relevant standards and guidance from the valuation perspective and where appropriate valuation practices adopted. Mark will then discuss relevant valuation issues.</i></p>	<p>11. Relevant extracts of standards and guidance from the valuation perspective. <b>(To follow)</b></p>	<p>Mark Gerold</p> <p>General Discussion</p>	11:15 to 12:15
<b>SUMMATION OF POSITION AND ISSUES TO BE ADDRESSED</b>		Ian Mackintosh	12:15 to 12:30
<i>The Chairman will provide a brief overview of major issues to be discussed following lunch.</i>			
<b>LUNCH</b>			12:30 -1:30
<p><b>5 RECOMMENDATIONS TO BE MADE TO THE PSC</b></p> <p><i>The objective of this session is to agree recommendations to be made to the PSC regarding the measurement of an impairment loss and any implications/consequences for the indicators of impairment, reversal of impairment losses if such should arise and other related matters.</i></p>		Ian Mackintosh	1:30pm to 3:30pm
<b>AFTERNOON TEA</b>			3:30-3:45
<b>ONGOING DISCUSSION, OTHER MATTERS AND FINAL COMMENTS</b>			3.45pm to 4.45pm



## KEY ISSUES

### DIRECTIONS FOR PREPARATION OF AN EXPOSURE DRAFT

*PSC members are requested to provide directions to staff on the following issues. The decisions of the PSC on these issues will enable staff to prepare a first draft of the Exposure Draft.*

The issues follow the sequence adopted in the PSC's Invitation to Comment. A brief summary of the responses to the ITC are included under each item. An analysis of responses to the ITC is included at item 12.5 (this analysis has been considered by the PSC previously). The views of the subcommittee on each of these issues are summarised below (see Agenda Paper 12.3 for the detailed subcommittee report). In broad terms, the general position of the subcommittee was that the IPSAS-ED should reflect the position in IAS 36 as far as is appropriate. PSC staff views on these issues are also included below.

#### **(a) ITC Issue 1: Should an impairment test apply to all assets?**

##### *The ITC Proposal*

The ITC proposed that the impairment test be applied to all assets except those covered by specific impairment tests in a particular IPSAS (for example IPSAS 12 *Inventories*).

Twenty-five respondents provided a clear opinion on this issue. All but four respondents supported the application of an impairment test to all assets (other than those assets covered by a specific impairment test in another accounting standard). In the ITC, the PSC made the point that all assets have the potential to be impaired. Those that agreed with general application of the impairment test made similar points.

Others did not support the application of an impairment test to all assets for reasons that included: an impairment test should not apply to heritage and infrastructure assets; impairment losses should only be recognized in respect of financial assets; and assets which continue to have "utility" to the entity should not be written-down simply because their depreciated replacement cost was less than their carrying amount.

##### *The Subcommittee View*

The Exposure Draft should apply to all assets, as proposed by the ITC.

##### *PSC Staff View*

The broad scope as proposed in the ITC should be reflected in the draft ED, subject to the usual IPSAS exclusion clause for GBEs. In this context, it should be noted that:

- heritage assets are not required to be recognized by IPSAS 17 *Property, Plant and Equipment*; and
- the subcommittee recommends a variation in the basis on which an impairment loss is to be determined. If adopted this variation may alleviate the concern of some respondent who were opposed to application of an impairment test because of the basis of measurement proposed in the ITC.

**(b) ITC issue 2: Should the IAS 36 impairment test apply where a public sector asset is held to generate net cash inflows?**

*The ITC Proposal*

The ITC proposed that the impairment test in IAS 36 "*Impairment of Assets*" be applied to assets held for their ability to generate net cash inflows. The impairment test in IAS 36 is to compare the carrying amount of an asset against the higher of the asset's net selling price and value-in-use. Value-in-use is determined by reference to the present value of future cash flows generated from use and sale of the asset, or the cash generating unit of which the asset is part.

Twenty-five respondents to the ITC provided a clear view on this issue. Four of these respondents did not support the use of the impairment test in IAS 36 for cash generating assets. Of those that did not support the IAS 36 impairment test, one indicated that they preferred comparing the carrying amount of an asset against its fair value, and one that they preferred comparing the carrying amount of an asset against its market value. A respondent also expressed concern that an entity may change its "intentions" regarding the purpose for which an asset is held and that such a change in intentions may be made to "manage" the entity's reported results.

*The Subcommittee View*

The Subcommittee was of the view that IAS 36 should apply to assets held by GBE's and to assets of other public sector entities that were held for the objective of generating a profit or achieving full cost recovery.

*PSC Staff View:*

The draft ED should propose that the IAS 36 impairment test be applied to cash generating assets consistent with the recommendations of the subcommittee.

Directions on the treatment of assets that change their designation from cash generating to non-cash generating and vice versa should also be included in the Exposure Draft. The staff proposal is that the carrying amount of an asset which is redesignated should be tested for an impairment loss as at the date of its redesignation if an indicator of impairment exists. Commentary would make it clear that a redesignation should only occur consistent with a change in the circumstances of the asset, and that the impairment test should be applied consistent with the terms of the new designation.

**(c) ITC issue 3: How should impairment losses for assets not held to generate net cash inflows be measured?**

*The ITC Proposal*

The ITC proposed that an impairment loss for assets held for service delivery rather than cash generating purposes should be measured by comparing the carrying amount of an asset with:

- the observable market value, for those assets which have an observable market value;
- the disposal value (net selling price), for those asset which do not continue to have utility for the entity; and

- the depreciated replacement cost, for assets which continue to have utility for the entity but for which a market value is not observable.

Twenty-three respondents provided a clear view on this question. Twenty one respondents indicated a level of support for the approach proposed by the PSC. However a number of those that were classified as supporting held reservations about some aspects of the basis for identification of an impairment loss. Several respondents indicated that the Committee needed to provide guidance to operationalize the measurement basis being proposed.

#### *The Subcommittee View*

The recommendations of the subcommittee are included at Agenda 12.3. In short, the subcommittee proposes that when an impairment review is triggered the carrying amount of the asset should be compared with the higher of its net selling price and value-in-use. This means that:

- If the asset does not have ongoing use to the entity, its value-in-use is zero - so the effective test becomes a comparison of carrying amount and net selling price; and
- If the asset has ongoing utility to the entity, its value-in-use is to be determined by reference to the remaining service potential of the asset, measured consistent with the measurement model adopted by the entity for property, plant and equipment and other assets that will be subject to the impairment test. Therefore, value-in-use will be measured at the historical cost of the remaining service potential if the historical cost model is applied, or some other basis if a current cost or mixed model is applied.

#### *PSC Staff View*

Staff are uncomfortable with the implications of the subcommittee in respect of the measurement basis under the benchmark treatment to measurement in IPSAS 17 *Property, Plant and Equipment*, because:

- without specification of the characteristics of the “mixed” historical model(s) that can be adopted under IPSASs, it provides a potentially wide range of alternatives bases for measuring an impairment loss where a “mixed” historical cost model is adopted; and
- the notion of “value-in-use” adopted in IAS 36 is a current value (present value of future cash flows generated by the asset) of the service potential. To reflect in the IPSAS a similar notion of value-in-use as in IAS 36 (while acknowledging that it is not appropriate to focus on cash flows generated by the asset), it would be necessary to focus on a current value of the remaining service potential.

Staff acknowledge that the broad principle-based approach recommended by the subcommittee may be necessary to move forward to an exposure draft, but advocate that the ED propose that the only alternative approaches to determining value-in-use under the benchmark treatment in IPSAS 17 are the *historical cost model that does not allow revaluations* and the *mixed historical model* approaches specifically referred to in the subcommittee paper. Under the *historical cost model that does not allow revaluations*,

value-in-use would be determined by reference to the historical cost of the remaining service potential (adopting the approaches proposed in the GASB paper) and under the *mixed historical model*, value-in-use would be determined by reference to the current replacement cost of the remaining service potential.

Staff also advocate that the ED make it clear that:

- accounting policies should identify the measurement model adopted;
- the basis of measurement of an impairment loss must be disclosed; and
- the basis of measurement must be applied consistently from period to period for all assets that are subject to the impairment test as specified by the scope of the exposure draft.

**(d) ITC issue 4. Is a “two-step” impairment test supported?**

*The ITC Proposal*

The ITC proposed that a “two step” approach be adopted. The first step being to establish indicators that an asset is impaired. An impairment test need only be applied when one of the indicators is “triggered”. The intention being to provide relief from the need to undertake a full impairment review at each reporting date if an indicator is not present.

Twenty-five respondents expressed a clear view on whether a two step approach should be adopted, only one of which did not support a two-step approach. A two step approach is adopted by the standards setters included in the summary of requirements attached at Agenda items 12.8 and 12.9.

*The Subcommittee View*

A two step approach should be adopted.

*Staff View:*

The “two step” approach should be retained in the draft ED.

**(e) ITC issue 5: Are the indicators of impairment supported?**

The ITC proposal

Twenty four respondents expressed a clear view on the indicators of impairment proposed by the PSC. While only one respondent was classified as not supporting the indicators, several respondents suggested additional and alternative indicators that should be considered.

A number of respondents and PSC members indicated reservations about the inclusion of a decline in the observable market value of an asset as an indicator of impairment when the historic cost model is adopted.

The indicators identified in the ITC are identified below. The ITC made it clear that this “list is not meant to be exhaustive, and there may be other factors relevant to testing for impairment”.

**Indicators Specified in the ITC**

26. Possible indicators of impairment include:
- (a) a change in the extent to which an asset is used;
  - (b) a change in the manner in which the asset is used;
  - (c) significant technological development;
  - (d) physical damage;
  - (e) a decline in, or cessation of, the demand or need for services provided by the asset;
  - (f) a decision to halt the construction of the asset before it is complete or in an usable condition;
  - (g) a change in the law, government policy or environment that limits the extent to which the asset can be used; or
  - (h) a significant decline in the observable market value of the asset.

*The Subcommittee*

The indicators in the ITC should be adopted with some refinements to provide a “safe harbour” against unnecessary testing. However, as noted in the subcommittee report, some subcommittee members expressed concern about indicators (a), (e), and (h) and wished to discuss these further with the PSC.

Internal indicators reflecting those in IAS 36 should also be included in the exposure draft.

**Staff view**

Staff are of the view that the indications identified in the ITC should be retained with the exception of (h) a significant decline in the observable model value of an asset. The reasons for this are as follows:

- In some cases, the market value of the asset may decline notwithstanding that the service potential of the asset continues to be maintained. An example is a school building that may experience a significant fall in market value because of changes in, for example, price levels despite continuing to provide the underlying service as expected.
- It does seem incongruous to require an impairment test to be undertaken when there is a significant decline in the market value even if that market value remains substantially greater than the carrying amount of the asset. (Of course in this case, the test for impairment would not be onerous because market value would be greater than the carrying amount).

- The list of indicators is not exhaustive and if the underlying factors that gave rise to the decline in market value impacted on assessments of remaining service potential, they would trigger an impairment review.

Staff are also of the view that the indicators relating to such matters as demand for the service, extent of use, manner of use, technology, law, government policy and environment be rephrased so that they reflect that the indicator of impairment is the expectation of significant long-term changes in those parameters (demand, use, etc) with adverse effects on the entity. Amendments of this nature would then reflect the fact that the changes are seen as being within the context of the anticipated long-term use of the asset. (IAS 36 also includes the notion of long term utility into its impairment measurement: IAS 36 requires that value-in-use be determined as the present value of future cash flows over the long term.)

This does not mean that only permanent impairments are recognized since expectations of long-term use can change. Guidance on the conditions and processes to support conclusions that long-term use has changed could be specified in much the same manner as in IAS 36, which is quite prescriptive in this respect for cash flow projections (PSC ED of course would not focus on cash flows). This would reduce differences between IAS 36 and the ITC and may overcome the concerns of some about the ‘temporary’ versus ‘permanent’ impairment issue.

IAS 36 (Para 9, item (g)) includes as an indicator, evidence from internal reporting that indicates the economic performance of an asset is or will be worse than expected. PSC staff believe that internal reports in public sector can equally contain evidence of adverse performance that can be relied upon as an indicator of impairment. However, for non-cash flow assets, the focus should be on “service performance”.

**(f) ITC issues 6 and 7: Should all impairment losses be recognized or only permanent losses, and should reversals of impairment write-downs be allowed?**

*The ITC Proposal*

The ITC sought comment on whether only those impairments judged to be permanent should trigger a write-down, and whether reversals of write-downs should be allowed if conditions giving rise to the impairment have reversed.

Twenty-three respondents commented specifically on the permanent/temporary issue. Of these, fifteen supported the view that all impairment losses should be recognized (one of those discussing the issue in the context of the fair value measurement basis). Seven were of the view that only permanent impairment losses should be recognized and one advocated that some other basis should be applied to the recognition of an impairment loss (for example, distinguishing between impairments resulting from price level changes and those from loss of service potential.)

Respondents that supported the recognition of all impairment losses without assessing whether they are permanent or not, pointed out that the objective of the impairment test was to ensure that the carrying amount of assets was not overstated in the financial report

at reporting date. In this context, it was not meaningful to distinguish between “temporary” and “permanent” impairment losses.

Some of those that favored recognizing only permanent impairment losses expressed concern that the recognition of temporary impairment loss would add too much volatility to net income and expenses.

The recognition of an impairment loss that may be temporary takes on much greater significance if the reporting model does not allow reversals of impairment losses when circumstances/estimates giving rise to the initial impairment no longer apply.

Twenty-two respondents commented specifically on whether reversals of impairment write-downs should be permitted when the circumstances/estimates giving rise to the initial impairment no longer apply. In broad terms, those that supported a write-down of all impairments (whether or not judged to be permanent) supported reversals (16 respondents). Those that supported write-downs for only permanent impairments generally did not support reversals. However, two respondents that supported write-downs for only permanent impairments did note that a mechanism to deal with uncertainty was necessary and, in one case, may involve something akin to a reversal.

The ITC proposed that an impairment loss “may be reversed” if conditions giving rise to the impairment loss no longer apply. IAS 36 requires that impairments “should be reversed, if and only if, there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized”. IAS 36 requires that the reversal should be recognized in the income statement (statement of financial performance) unless the asset is carried at a revalued amount consistent with another standard (for example IPSAS 17 or IPSAS 16 *Investment Property*). In such cases, the reversal is treated as a revaluation adjustment consistent with the requirements of those standards. IAS 36 also requires that the reversal be “capped” such that the increased carrying amount of the asset after the reversal of the impairment loss will not exceed the amount that would have been determined (net of depreciation) had no impairment occurred.

#### *The Subcommittee View*

The subcommittee was of the view that the exposure draft should include the same requirement as IAS 36 on this matter if the “principle based approach” to determination of an impairment loss was adopted.

#### *Staff View:*

An impairment write-down should not be conditional on an assessment of whether or not the impairment is permanent – all impairment losses should be recognized. The treatment of reversals of an impairment loss should be consistent with the treatment in IAS 36 and be required when circumstances/estimates giving rise to the initial impairment no longer apply.

Staff can appreciate the concern of some respondents about the volatility in reported financial results that might arise if impairments are not permanent and therefore need to

be reversed. However, this concern does not override the principle that at reporting date assets should not be carried at an amount that is overstated consistent with the measurement model adopted. In addition, it is not clear to staff how one is to determine whether the impairment is permanent in cases other than physical damage or (arguably) obsolescence. Indeed, one respondent who supported the recognition of impairment losses only when the impairment is assessed to be permanent noted that a mechanism is needed to deal with uncertainty/unexpected events which may mean that, in effect, an impairment is fully or partially reversed.

Specifying that reversals be allowed rather than required if the conditions/estimates giving rise to the impairment no longer apply is appealing because it reflects the position advocated in the ITC and goes some way to responding to those concerned with the volatility that might arise from the recognition, and subsequent reversal, of impairments that turn out to be temporary (reversals are not required by the IPSAS and national requirements can prohibit reversals). Staff can also appreciate the practical difficulties that can arise in requiring entities to determine at each reporting date to whether the conditions/estimates giving rise to the impairment loss have reversed and to measure the impact of that reversal on the carrying amount of assets.

However, staff are of the view that that at least the initial draft of the Exposure Draft should be prepared on the basis that reversals are required when the conditions/estimates giving rise to the initial impairment no longer apply. This is because the identification of impairment losses are based on estimates of remaining service potential and reversal of estimates of impairment losses when conditions giving rise to those estimates reverse:

- is consistent with the requirements in IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes In Accounting Policies* which requires that changes in estimates be recognized in the period of change if the change affects that period only;
- provides users with a more reliable measure of the service potential of the asset, measured consistent with the measurement model adopted (because the asset is not reported as being impaired when the impairment has been restored);
- ensures that the current period recognizes the restoration of service potential previously assessed to be “lost”, and that the cost of service provision in future periods is presented on a more reliable basis because the depreciation recognized does not include the effects of an impairment write-down that is no longer relevant; and
- is consistent with the requirements of IAS 36.

In addition, the amendment of the indications proposed in item (e) above will clarify that an impairment review should be triggered when there is a significant long-term change in certain factors. This will provide a safe harbour to ensure that write-downs occur after consideration of service potential over the long term. As noted above this is consistent



with IAS 36 which measures value-in-use by reference to the present value of cost flows over the life of the asset and its ultimate disapproval.

The subcommittee also recommended that:

- assets that are regularly revalued in accordance with the allowed alternative approach in IPSAS 17 *Property Plant and Equipment* would not be subject to an impairment test; and
- additional guidance on the demarcation between depreciation and impairment should not be included in the exposure draft.

These matters were not specifically raised in the ITC but had been raised in staff papers to the PSC.

IFAC  
Public  
Sector  
Committee

Issued July 2000

## Invitation to Comment

Response Due Date 30 January, 2001

# Impairment of Assets

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**This Invitation to Comment was issued by the Public Sector Committee of the International Federation of Accountants.**

Information about the International Federation of Accountants and copies of this Invitation to Comment can be found at its internet site: <http://www.ifac.org>.

The approved text of this Invitation to Comment is that published in the English language.

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## **Commenting on this Invitation to Comment**

This Invitation to Comment of the International Federation of Accountants was prepared by the Public Sector Committee. Comments should be submitted in writing so as to be received by 30 January 2001. E-mail responses are preferred. Unless respondents specifically request confidentiality, their comments are a matter of public record once the Public Sector Committee has considered them. Comments should be addressed to:

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Fax: +1 (212) 286-9570  
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## Executive Summary

The Public Sector Committee (PSC) has prepared this Invitation to Comment (ITC) to elicit views on how the impairment of assets held by public sector entities should be recognized and measured in their financial statements. The purpose of an impairment test is to ensure that the carrying amount of an asset is not overstated. When assets, either individually or collectively, generate net cash inflows, an impairment test can be applied that compares the carrying amount with the recoverable amount (the higher of net selling price and the estimated present value of net cash inflows recoverable from their use and subsequent disposal). A number of standard setters have developed impairment tests on this basis. There is, however, no generally agreed approach as to how an impairment test should be applied to assets that are not held with the objective of generating net cash inflows, such as assets held for social or cultural purposes.

The PSC's tentative views are that an impairment test should be applied to all assets when certain impairment indicators are triggered. In the event that impairment is indicated for assets held with the objective of generating net cash inflows, it should be measured by comparing the carrying amount of the asset against the higher of the net selling price and value-in-use (in a manner consistent with International Accounting Standard IAS 36, *Impairment of Assets*). For assets not held with the objective of generating net cash inflows, impairment should be measured by comparing the carrying amount of the asset with:

- the observable market value (for those assets which have an observable market value);
- the disposal value (for assets which do not continue to have utility for the entity); and
- the depreciated replacement cost (for assets which continue to have utility for the entity).

The PSC notes that some argue that only permanent impairment losses should be recognized. Others argue that in practice the relevance of asset values may be compromised by recognizing "permanent" impairment losses only. The tentative view of the PSC is that all impairment losses (both temporary and permanent) should be recognized and that where the conditions that give rise to an impairment loss no longer apply, that impairment loss may be reversed.

Although the PSC has carefully considered these issues, the views it has formed are tentative only, and the PSC welcomes the views of its constituents on the issues raised in this ITC.

# The Purpose of this Invitation to Comment

## Introduction

1. The purpose of this Invitation to Comment (ITC) is to seek comments on the appropriate accounting treatment for the impairment of assets in International Public Sector Accounting Standards (IPSASs). This ITC explores certain issues associated with a general impairment test. It does not deal with the impairment of assets for which a specific impairment test is established through another accounting standard. For example, the impairment of inventories is not covered in this ITC because it is dealt with in International Public Sector Accounting Standard ED 11 *Inventories*.
2. In preparing International Public Sector Accounting Standard ED 14 *Property, Plant and Equipment*, the Public Sector Committee (PSC) noted that the impairment test previously found in International Accounting Standard IAS 16, *Property, Plant and Equipment* had been superseded by International Accounting Standard IAS 36, *Impairment of Assets*. As part of the process of developing a core set of IPSASs, the PSC has recognized the need for an effective impairment test for all assets held by public sector entities.
3. An “impairment” is a loss in the service potential or future economic benefits of an asset, over and above the systematic recognition of the loss of an asset’s service potential recognized 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 and is now derelict. In addition, because of the specialized nature of the facility and its location, it is unlikely that it can be sold and therefore the entity is unable to generate cash flows from its disposal. In this case, the asset is 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.
4. When an asset’s remaining service potential falls below its carrying amount there could be a material overstatement of an entity’s assets (and an understatement of its expenses). An effective impairment test therefore plays a key role in ensuring relevant and reliable information is reported about an entity’s assets.

5. The PSC acknowledges that in some cases it may be difficult to apply an impairment test to assets held by public sector entities — especially where those assets are not held with the objective of directly generating net cash inflows. This issue is considered within this ITC.

## **Impairment Tests in National and International Accounting Standards**

6. It is generally accepted that where assets are held for their ability to generate net cash inflows, either directly or indirectly, an impairment test should be applied to the carrying amount of those assets. Many standard setters (such as those of Australia, Canada, the International Accounting Standards Committee, New Zealand, Sweden, the United Kingdom and the United States of America) have impairment tests that require the carrying amount of an asset to be “tested” against its recoverable amount. The recoverable amount is generally either based on the present value of the future net cash inflows an asset is expected to generate through its continued use and subsequent disposal or determined by reference to its net selling price, sometimes referred to as market value or fair value.
7. For example, in the context of IAS 36, impairment is determined by comparing the carrying amount of the asset to the recoverable amount of the asset (the higher of an asset’s net selling price and its value-in-use). 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. Value-in-use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life (IAS 36, paragraph 5).
8. There is, however, no generally agreed approach on how to apply an impairment test to assets that are not typically held for the purpose of directly generating net cash inflows, such as hospitals and recreational parks. IAS 36 does not explicitly deal with such assets.
9. Approaches adopted by various jurisdictions in respect of impairment tests for such assets include:
  - the recognition of impairment when an asset no longer contributes to an entity’s ability to provide goods and

services, or when the carrying amount of an asset exceeds its fair value;

- the recognition of impairment when the carrying amount of the asset is greater than the service potential of the asset, with such service potential being measured in accordance with the measurement model adopted by the entity in respect of those assets; and
- an impairment may be indicated where the carrying amount is greater than the expected, unrestricted cash flows (or funding) the entity expects to receive in the future. In such cases, if the fair value of the assets is less than their carrying amount, the assets are written down and an impairment loss recognized.



# Proposals and Request for Comments

## Scope of an Impairment Test

10. Some argue that an impairment test should be applied only to assets whose service potential is directly related to their ability to generate net cash inflows. They contend that many public sector assets may provide utility to the public sector entity in meeting its service delivery objectives even though those assets may have a nominal fair value on disposal. Accordingly, they would exclude many heritage and infrastructure assets from being subject to an impairment test.
11. The PSC's tentative view is that an impairment test should be applied to all assets (other than those assets dealt with specifically by other Standards, such as inventory). The PSC's view is predicated on the fact that all assets are capable of being impaired — even natural assets, such as a national park, can become impaired if they are not maintained adequately. Often the concern about the application of an impairment test to all assets stems from a concern that entities will be required to make significant write-downs to the carrying amounts of their asset base. However, this is not a scope issue but rather a question of how an impairment test is triggered and the subsequent measurement of an impairment loss.

### *Comments sought*

1. *Do you agree that an impairment test should be applied to all assets except those assets covered by a specific impairment test in another accounting Standard? If so, what are the reasons for your conclusions? If you do not agree, which specific classes of assets should be excluded and what is the basis for excluding them?*

## Measurement of an Impairment Loss

12. Consistent with the PSC's tentative view that an impairment test should be applied to all assets, the measurement of impairment losses needs to be considered both for assets which are held with the objective of generating net cash inflows and those that are not.

13. There are two established approaches to measuring an impairment loss:
- estimating the present value of the net cash inflows an asset is expected to generate; and
  - making reference to market prices.

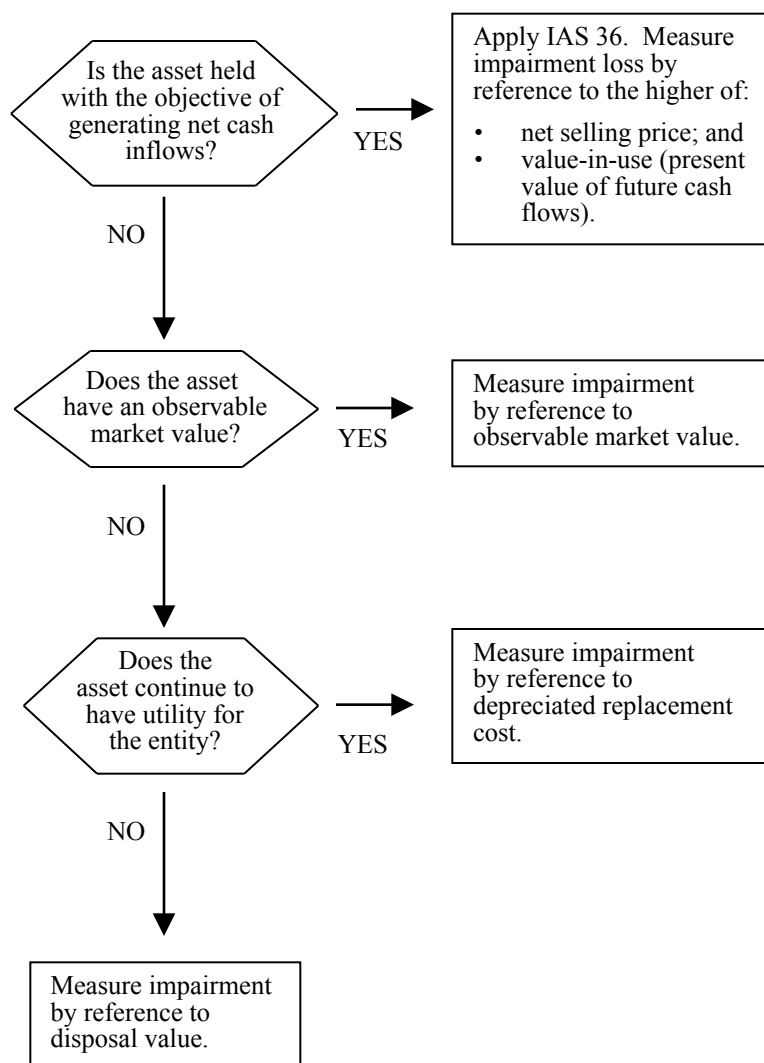
These two approaches are discussed further below.

14. One approach is to measure an impairment loss by comparing the carrying amount of an asset against its recoverable amount based on the future net cash inflows (either discounted or undiscounted) that an asset is expected to generate. However, for assets that are not held for the purpose of generating net cash inflows, some argue that such a test is likely to result in a significant number of assets being written down because they do not generate net cash inflows sufficient to recover the cost of the asset. Some contend that assets should be aggregated into cash generating units to measure an impairment loss — for some public sector entities this would require an assessment of the future total cash flows an entity is expected to generate as a whole.
15. The PSC is concerned that such an approach may not be effective in isolating impairment and may result in inappropriate recognition of impairment losses.
16. The other established approach is to measure an impairment loss by comparing the carrying amount of an asset against its value as evidenced from the market. This is normally based on the amount recoverable from the sale of an asset (selling price). For some assets in the public sector, the absence of active and liquid markets may result in difficulties in obtaining values based on recent sales and it may be necessary to rely on an alternative to a selling price.
17. The PSC's tentative view is that where an asset is held for its ability to generate net cash inflows, the IAS 36 impairment test should be applied to these assets regardless of whether the entity holding that asset has not-for-profit objectives. For example, a government department may operate a commercial activity such as a public car park. There appears to be no reason why the impairment test applied to assets held by the private sector should not apply equally to similar commercial assets held by public sector entities.

18. This tentative view is consistent with the PSC's strategy of developing IPSASs by adapting IASs issued by the International Accounting Standards Committee (IASC) to a public sector context.
19. Under Guideline No. 1, *Financial Reporting by Government Business Enterprises*, the PSC already recommends that Government Business Enterprises (GBEs) apply IASs. Accordingly, the requirements in IAS 36 are applicable to assets held by GBEs. As stated in paragraph 17, the PSC wishes to adopt the same impairment test as that in IAS 36 for assets which are held with the objective of generating net cash inflows. Failure to do so would lead to the application of a different impairment test to the assets of GBEs when consolidated into an entity applying IPSASs compared to the test applied to assets within the financial statements of the GBE itself. The PSC considers that such a difference would be unnecessary and undesirable.
20. Although the approach to be adopted for assets held for the purpose of generating net cash inflows is clear, the type of impairment test that should be applied to assets not held principally for their ability to generate net cash inflows is less clear.
21. The PSC's desire is to establish an impairment test for such assets which is as consistent as possible with IAS 36. The PSC notes that although the cash flow based test will not be appropriate for some of these assets, market-based approaches may be able to be applied.
22. The PSC's tentative view is that where an asset has an observable market value, that value should be used in measuring any impairment loss. Where an asset does not have an observable market value and the asset continues to have utility for the entity, its depreciated replacement cost should be used in measuring any impairment loss. Where the asset no longer has utility for the entity holding it, or its ability to utilize the asset has been significantly restricted, a disposal value (net selling price) should be used. This is consistent with generally accepted measurement requirements in accounting pronouncements that assets held for disposal are treated in the same manner as inventory and measured at the lower of their cost and net realizable value.

23. The approach the PSC is contemplating is summarized in Figure 1 below.

**Figure 1**



*Comments sought*

2. *Do you agree that an impairment test for assets which are held with the objective of generating net cash inflows should be measured by comparing the carrying amount of the asset against the higher of net selling price and value-in-use (in a manner consistent with IAS 36)? If not, what alternative method would you recommend, and what are your reason(s)?*
3. *Do you agree that an impairment loss for assets which are not held with the objective of generating net cash inflows should be measured by comparing the carrying amount of the asset against:*
- the observable market value (for those assets which have an observable market value);*
  - the disposal value (net selling price) (for assets which do not continue to have utility for the entity); and*
  - the depreciated replacement cost (for assets which continue to have utility for the entity)?*
- If not, what alternative methods would you recommend and what are your reason(s)?*

## **Indicators of Asset Impairment**

24. A number of standard setters, such as the IASC, have developed a two-step impairment test. The first step is to establish whether there are any indications that an asset may be impaired. If there is evidence that a “trigger” or “indicator” has been satisfied, an impairment test is applied and, if appropriate, an impairment loss recognized.
25. Developing an appropriate set of “indicators” is a key feature of an effective and workable impairment test. The PSC’s tentative view is that a two-step approach is preferred and should be applied to all assets of public sector entities. The indicators listed below attempt to capture whether there may have been a decline in the utility of the asset for the entity holding it — noting that “utility” or “usefulness” will often have two components for an entity: a value-in-use and a value-in-exchange. This list is not meant to be exhaustive and there may be other factors relevant to testing for impairment.

*Invitation to Comment Impairment of Assets*

26. Possible indicators of impairment include:
- (a) a change in the extent to which an asset is used;
  - (b) a change in the manner in which the asset is used;
  - (c) significant technological development;
  - (d) physical damage;
  - (e) a decline in, or cessation of, the demand or need for services provided by the asset;
  - (f) a decision to halt the construction of the asset before it is complete or in an usable condition;
  - (g) a change in the law, government policy or environment that limits the extent to which the asset can be used; or
  - (h) a significant decline in the observable market value of the asset.
27. The indicators listed above differ slightly from those in IAS 36. The reason for this is that IAS 36 focuses only on the impairment of assets held by profit-seeking entities with the objective of generating net cash inflows.

*Comments sought*

4. *Do you agree that a two-step impairment test should be developed? If you do not agree, what are your reasons for not supporting a two-step approach?*
5. *If you support a two-step approach, do you agree with the indicators of impairment set out above? If you do not agree with these indicators of impairment, what are your reasons for disagreeing and what alternative indicators do you suggest?*

## **Recognition of all Impairment Losses, or Permanent Losses only**

28. There are differing views on whether all or permanent impairment losses only should be recognized and whether impairment losses should be able to be reversed.
29. One view is that an impairment loss should be recognized only when it is apparent that the events that created the loss will not reverse. In some cases it will be clear that an impairment loss will not reverse, for example, when an asset is physically damaged and can no longer function properly. In other cases,

such as a decline in demand for a service, the permanence of any impairment will only be known with the passage of time. Accordingly, some impairment losses resulting from economic factors (such as a decline in property values) may not result in any loss being recognized because of cyclical movements in prices.

30. Those who hold this view also argue that an impairment loss should not be reversed if the conditions that caused the impairment no longer apply. It is argued that under the historical cost basis, it would be inappropriate to reverse an impairment loss as it would represent a revaluation outside a regular revaluation or current value model. This approach has typically been adopted by standard setters in Canada and the United States .
31. Another view is that it is extremely difficult to distinguish between “temporary” and “permanent” impairment losses. Changes in the value of assets, resulting from, for example, a significant fall in asset prices may not be recognized on the grounds that price movements are a function of economic cycles and may recover. Financial statements may be distorted if an impaired asset continues to be carried at an amount that exceeds its market value.
32. Those who support recognition of both permanent and temporary impairment losses permit reversals of impairment losses when the conditions that gave rise to the impairment loss have reversed. Standard setters in Australia New Zealand and the IASC have adopted this approach.
33. The PSC’s tentative view is that all impairment losses (both temporary and permanent) should be recognized as they occur and that where the conditions that gave rise to an impairment loss no longer apply, an impairment loss may be reversed.

*Comments sought*

6. (a) *Do you agree that all impairment losses should be recognized, without making any judgment about the “permanence” of the loss? If so, what are your reasons for reaching that conclusion?*

*OR*

- (b) *Do you consider that an impairment loss should only be recognized when it is likely to be permanent? If so, what*

*factors should be taken into account to determine that an impairment loss is permanent?*

*OR*

- (c) Do you support some other basis for the recognition of impairment losses? If so, provide an explanation of that alternative basis with supporting reasons.*
7. *(a) Do you support the reversal of impairment losses where temporary and permanent impairment losses are not distinguished (option 6(a) above) and the conditions leading to the initial impairment loss have reversed? If so, what are your reasons for reaching that conclusion?*

*OR*

- (b) Do you support the reversal of impairment losses where only permanent impairment losses are recognized (option 6(b) above)? If so, what are your reasons for reaching that conclusion?*

*OR*

- (c) Do you support some alternative basis for the reversal of impairment losses? If so, provide an explanation of that alternative basis with supporting reasons.*