



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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DATE: 24 FEBRUARY, 2004  
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE  
FROM: MATTHEW BOHUN  
SUBJECT: **ITEM 8 ED 23 IMPAIRMENT OF ASSETS**

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### **ACTION REQUIRED**

The Committee is asked to:

- **review** the responses to the exposure draft, the staff analysis of the responses, and staff proposals for drafting a proposed IPSAS; and
- **provide** staff with directions for developing the final IPSAS.

### **AGENDA MATERIAL:**

	<b>Pages</b>
8.2 Summary of responses to ED 23	8.15 – 8.58
8.3 Table of Editorial and Other comments	8.59 – 8.74
8.4 Summary of GASB Statement 42 – a copy of the full statement is available on request.	8.75 – 8.77
8.5 Copy of Submissions received – printed copies were circulated prior to the meeting.	

### **BACKGROUND**

Exposure Draft ED 23 *Impairment of Assets* was issued in September 2003 for comment by January 31, 2004. ED 23 was developed after a lengthy consultation process, which involved the issuing of an Invitation to Comment in July 2000, a review of the responses to that ITC, and the formation of a subcommittee to consider appropriate techniques to measure impairment.

#### *GASB Statement 42*

GASB staff provided significant input to the development of ED 23. GASB issued Statement 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Many of the principles elaborated by GASB Statement 42 have been adopted by the PSC in ED 23 though interpreted in the context of the IPSASs. The examples in Appendix B of ED 23 were drawn from GASB Statement 42. A summary of GASB Statement 42 is included in Item 8.4. Statement 42 is a lengthy document so has not been included in this already lengthy agenda item. However GASB have agreed that Statement 42 can be provided by staff on request.

#### *Summary of Responses and Major Issues*

Thirty-one responses commenting on ED 23 have been received up to February 18, 2004. Staff have analyzed these responses and this analysis is discussed below. A summary of

respondents' views is provided in Item 8.2. This includes overall assessment of support for individual issues. In some cases, it was necessary to exercise judgment in determining whether a respondent agrees or disagrees with a particular proposal or in making an overall assessment. Members are requested to review the staff interpretations in light of the actual comments made by respondents as included in Item 8.5, circulated to members prior to the meeting. The responses extend to many pages so printed copies were circulated before the meeting, however the responses will also be posted to the IFAC Leadership Intranet if additional copies are required.

The PSC's objective in this project was to replicate the principles of IAS 36 *Impairment of Assets* for non-cash-generating assets as far as possible, and to vary from the broad approach of IAS 36 only where there was a public sector specific reason for doing so. This means that:

1. cash-generating assets should be subject to the impairment requirements of IAS 36 *Impairment of Assets*;
2. where an impairment requirement is included in an existing IPSAS, assets within the scope of the existing IPSAS should be excluded from the scope of ED 23, this includes inventories and assets arising from construction contracts, but could potentially include other assets as new IPSASs are issued;
3. investment property carried at fair value should be excluded because the fair value of investment property takes account of any impairment;
4. financial assets within the scope of IPSAS 15 *Financial Instruments: Presentation and Disclosure* should be excluded, because the PSC has yet to determine its position on the appropriate requirements for recognition and measurement of financial instruments in the public sector;
5. a two stage process should be adopted, that is, testing whether an indicator of impairment is present, and if one is, testing whether the carrying amount is higher than recoverable service amount; and
6. a present value notion of service potential should be adopted. The PSC decided that the present value of the remaining service potential of a non-cash-generating public sector asset is most appropriately measured using the depreciated replacement cost approach, the restoration cost approach or the service units approach.

The PSC deliberately decided to include within the scope of ED 23 biological assets related to agricultural activity, goodwill and intangible assets, because there is no IPSAS that deals with these issues, and the PSC has yet to examine the related IASs/IFRSs for their applicability to the public sector.

The PSC decided to exclude from the scope of ED 23 non-cash-generating property, plant and equipment measured using the allowed alternative in IPSAS 17 *Property, Plant and Equipment*. This differs from the IAS 36 which includes revalued property, plant and equipment for impairment within its scope. The IASB's ED 3 *Business Combinations*, proposes changes to IAS 36, but these changes do not exclude revalued property, plant and equipment from the scope of the proposed IAS 36.

Item 8.3 provides a Table of Editorial and Other Comments, which includes comments on some matters not specifically addressed by ED 23, however they have been considered in the staff analysis.

### OVERALL COMMENTS

SUPPORT (Subject to comments made)	A	24
DOES NOT SUPPORT	B	4
NO CLEAR VIEW	C	3
TOTAL		31

As the above table indicates, most respondents are supportive of the PSC issuing an IPSAS on the impairment of non-cash-generating assets based on the general principles proposed in ED 23. Some respondents raised concerns about some of the specific matters for comment; these are dealt with under the respective heading below. Several respondents felt that the ED needed tightening up in some areas, and provided comments in relation to the specific matters for comment in this regard.

Four respondents made comments, which staff have interpreted as not being supportive of an IPSAS based on ED 23 being issued. The concerns of these respondents are noted in Item 8.2, staff believe that these concerns relate to the general principles outlined above. One respondent stated that they were uncomfortable applying the principles of IAS 36 to public sector assets held primarily to provide services at the request of the government. A second respondent expressed discomfort about using selling prices in estimating of the value in use of a non-cash-generating asset. A third respondent indicated that many of the principles embodied in the ED did not harmonize with their national GAAP, which the respondent supports. A fourth respondent indicated that they had serious reservations about the depreciated replacement cost approach as a measure of value in use of a public sector asset.

### *Staff Recommendation*

Staff believe that the PSC has received support for its proposal to issue an IPSAS based on ED 23. Staff recommend that the PSC proceed to develop an IPSAS based on the ED. Whilst the concerns raised by respondents to ED 23 may have merit in themselves, in a number of cases they do not fit with the PSC's objective to replicate IAS 36 where appropriate. In some cases the comments reflect concerns about the impairment recognition model itself. Staff acknowledge the views of the dissenting respondents, but believe that the PSC's general principles should stand.

## SPECIFIC MATTERS FOR COMMENT

### (a) Scope of the IPSAS

Agree	A	11
Agree, except for non-cash generating PP&E carried at revalue amounts	B	12
Disagree	C	4
No view expressed	D	4
TOTAL		31

#### *Exclusion of Property, Plant and Equipment Regularly Revalued to Fair Value*

The PSC asked respondents whether they agreed with the scope of the proposed IPSAS. The above table indicates that although the majority agrees with most of the scope, a sizeable minority disagree with excluding non-cash-generating property, plant and equipment measured using the allowed alternative treatment in IPSAS 17 – that is property, plant and equipment which is regularly revalued to fair value. Twelve respondents are of the view that the IPSAS should, like IAS 36, include within its scope, revalued property, plant and equipment. IPSAS 17 requires valuations to be undertaken with sufficient regularity to ensure that the amounts in the general purpose financial statements are not materially different from what would be included if the revaluation were conducted on reporting date. Respondents were not convinced that this means that an impairment test is not required. They argue that the allowed alternative treatment in IPSAS 17 is the same as that in IAS 16 *Property, Plant and Equipment* and that IAS 36 requires such assets to be tested for impairment.

#### *Inclusion of Biological Assets, Intangible Assets and Goodwill*

Four respondents made comments which staff have interpreted as being disagreement with the inclusion of biological assets related to agriculture and/or goodwill and/or other intangible assets within the scope of the IPSAS. One respondent did not consider that such assets would arise in a non-cash-generating context. Another stated that their national public sector accounting standards did not permit entities to recognize goodwill and other intangibles. The third suggested the IPSAS be limited to investment property and property, plant and equipment, but did not elaborate further. The fourth respondent stated that the PSC should develop separate standards on agriculture and intangible assets.

#### *Staff Recommendation – Property, Plant and Equipment Carried At Revalued Amounts*

Staff believe that the concern of respondents that property, plant and equipment carried at revalued amounts should be subject to impairment testing needs to be addressed. Staff believe that the PSC's reasoning for excluding these assets from the scope of ED 23 remains sound. If entities are applying IPSAS 17 correctly, the amounts recognized in the financial statements in respect of revalued assets will not be materially different from the fair value of those assets on reporting date. For example, net selling price is defined in ED 23 as:

***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.***

As such an impairment is unlikely to arise except for transaction costs.

However, IAS 36 includes revalued property, plant and equipment within its scope and the aim of the PSC is to replicate IAS 36 unless there is a public sector reason for a variation. Staff do not believe that there is a public sector reason to vary from IAS 36 in respect of revalued property, plant and equipment. However, staff also do not believe it is necessary to impose an impairment test in circumstances where the impairment will only relate to selling costs.

If the PSC wishes to revisit its decision to exclude revalued property, plant and equipment, two amendments will be needed. Firstly, the IPSAS would have to replicate the IAS 36 definition of "net selling price":

***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.***

The definition in the proposed IPSAS is incompatible with the guidance given in IAS 36, paragraph 4(b) in relation to revalued assets, because in ED 23 net selling prices is the fair value of the asset less the costs of selling. The second amendment would be to include paragraph 4 of IAS 36 in the proposed IPSAS. Paragraph 4 states:

4. This Standard applies to assets that are carried at revalued amount (fair value) under other International Accounting Standards, such as the allowed alternative treatment in IAS 16 Property, Plant and Equipment. However, identifying whether 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; and
    - (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 Standard to determine whether 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 Standard to determine whether the asset may be impaired.

#### *Staff Recommendation – Biological Assets, Intangible Assets, Goodwill*

Whilst acknowledging the concerns of the dissenting respondents, staff believe that the decision to require impairment testing of all assets other than those specifically excluded is necessary for a robust IPSAS.

The PSC may, however, wish to adopt the approach being proposed in respect of improving IPSAS 12 *Inventories* (see Agenda Item 12, page 12.22). This proposal would exclude biological assets related to agricultural activity and agricultural produce at the point of harvest dealt with in accordance with an international or national standard on agriculture, which has been adopted by the entity and that includes an impairment test. This approach would align the proposed IPSAS on impairment more closely with IAS 36 and does not impose the requirements of the proposed IPSAS when an international or national accounting standard includes an impairment test.

**(b) Definition of “Cash-generating assets”**

Agree	A	13
Disagree	B	10
No view expressed	C	8
TOTAL		31

The PSC asked respondents whether they agreed with the proposed definition of “cash-generating-asset”. As the above table and Item 8.2 indicate, most respondents agreed with the principal that cash-generating assets are assets held to generate a commercial rate of return. However, ten respondents noted that the definition of “Government Business Enterprise” does not include the requirement for GBEs to earn a commercial rate of return. Whilst neither the definition of “cash-generating assets” nor the related commentary in the ED state that assets of GBEs are held to generate a commercial rate of return; these respondents have interpreted the ED as stating that the assets of GBEs are held to generate a commercial rate of return. IPSASs requires that GBEs sell goods or services at a “profit or full cost recovery”. “Profit or full cost recovery” does not necessarily equate to “commercial rate of return”. The commentary on GBEs acknowledges that GBEs may have some limited community service obligations.

The proposed IPSAS will not apply to Government Business Enterprises, and including their assets within the definition of “cash-generating assets” seems to have led to some confusion. Government Business Enterprises are required to apply IAS 36 in respect of all their assets that fall within the scope of that IAS.

The Government Accounting Standards Advisory Board of India (GASABI), the Institute of Chartered Accountants of New Zealand (ICANZ), the Office of the Auditor General of New Zealand (OAG-NZ) and the National Housing Authority (NHA-UK) recommend adopting the following definition:

***Cash-generating assets are assets held by public sector entities, other than Government Business Enterprises, to generate a commercial rate of return.***

Some respondents suggested that more guidance be given on what constitutes a commercial rate of return.

*Staff Recommendation*

Staff recommend that the above definition of “cash-generating asset” be adopted. Staff would prefer not to specify what constitutes a commercial rate of return, staff would prefer that this be left to professional judgment.

**(c) Assessing Indicators of Impairment at each Reporting Date**

Agree	A	20
Disagree	B	2
No view expressed	C	9
<b>TOTAL</b>		<b>31</b>

The PSC asked whether entities should be required to assess at each reporting date whether there is an indicator that an asset may be impaired. As the table above and Item 8.2 indicate, most respondents agreed that it is appropriate for entities to assess at each reporting date whether there is an indicator that an asset may be impaired. Most also agreed that the list of indicators is not exhaustive. Two respondents considered that such a requirement would be onerous, one suggesting that it should be applied only to significant items likely to have a material effect on the performance of the entity.

*Staff Recommendation*

Staff recommend that the existing provisions of the proposed IPSAS be retained as they are.

**(d) Assessing an asset's recoverable service amount when an indicator is present at the reporting date**

Agree	A	22
Disagree	B	0
No view expressed	C	9
<b>TOTAL</b>		<b>31</b>

The PSC asked whether entities should be required to estimate an asset's recoverable service amount when an indicator of impairment is present at the reporting date. As the table above and Item 8.2 indicates, most respondents agreed with this proposal. No respondents disagreed with this proposal.

*Staff Recommendation*

Staff recommend that the existing provisions of the proposed IPSAS be retained as they are.

**(e) Exclude a decline in market value from the list of minimum indicators of impairment in black letter**

Agree	A	14
Disagree	B	9
No view expressed	C	8
<b>TOTAL</b>		<b>31</b>

The PSC asked whether respondents agreed that a change in market value should be excluded from the "black letter" list of minimum indicators of impairment. As the above table and Item 8.2 indicate most respondents agreed with the PSC's proposal, however, a significant minority disagreed. Respondents favoring the exclusion of market value as an

indicator of impairment were concerned to ensure that non-cash-generating assets should only be considered impaired if their utility to the entity were diminished. They also argued that for many public sector non-cash generating assets, there is no market value.

Dissenting respondents argued that there was no public sector specific reason for varying the provisions of IAS 36. Some noted that given that the net selling price of the asset is one of the factors to be considered in determining recoverable service amount, it is essential that a significant decline in market value be included in the minimum indicators of impairment in black letter.

The PSC decided to exclude significant, unexpected declines in market value from the minimum list of indicators of impairment because in respect of non-cash-generating assets the market value of asset was not necessarily related to its utility to the entity. The PSC felt that if an asset was still performing as anticipated, a significant, unexpected decline in market value was not necessarily an indicator of impairment. The PSC preferred to include this indicator in the commentary related to the black letter list of minimum indicators of impairment.

Many non-cash-generating assets are not traded in active markets, and therefore it is difficult to determine a market value for the asset, other than a scrap value. Some non-cash-generating assets, such as office buildings, automobiles, and buses, are traded in active markets and may be subject to significant declines in market values. In many cases, irrespective of whether the asset is traded in an active market, the significant decline in market value will have been anticipated by the entity when it acquired the asset and will have been built into assessments of residual value. Currently, the commentary in paragraph 21 indicates that a significant decline in market value may be an indicator of impairment. This commentary paragraph does not replicate the indicator in IAS 36, which specifies that the decline in market value must be unexpected.

#### *Staff recommend*

Staff recommend the black letter minimum indicators of impairment be retained as they are, but that the commentary in paragraph 21 be amended to replicate the IAS 36 indicator, that is, that it specify that the decline in market value be significantly more than would be expected as a result of the passage of time or normal use.

#### **(f) Reduction (increase) in demand as an indicator of impairment (reversal of impairment)**

Include	A	18
Do not include	B	4
No view expressed	C	9
<b>TOTAL</b>		<b>31</b>

The PSC asked whether a reduction (other than cessation) in demand or need for services provided by the asset should be an indicator of impairment, and conversely whether an increase in demand should be an indicator of reversal of impairment. As the above table and Item 8.2 indicate, most respondents agree that a decline in demand is an indicator that a non-cash-generating asset might be impaired.

Four respondents disagreed with the proposal, each for the different reasons. One respondent could not understand why a significant decline in market value is not a minimum indicator of impairment, yet a decline in demand is. Another was uncomfortable using demand as an indicator of impairment because changes in demand can be due to a range of factors. The third respondent disagrees with the principle of allowing reversal of impairment because it is not permitted under their national GAAP. The fourth respondent considered that changes in demand reflect movements related to the law of supply and demand and did not affect the service potential of an asset.

Staff believe the current provisions are consistent with the PSC's principles for recognizing impairment losses and reversals.

#### *Staff Recommendation*

Staff recommend that the existing provisions of the proposed IPSAS be retained as they are.

#### **(g) Measurement of the value in use of a non-cash-generating asset**

Agree	A	19
Disagree	B	5
No view expressed	C	7
<b>TOTAL</b>		<b>31</b>

The PSC asked whether respondents agreed with the proposal to measure the value in use (the present value of the remaining service potential), of a non-cash-generating asset using the depreciated replacement cost approach, restoration cost approach or service units approach. As the above table and Item 8.2 indicate, most respondents agree with the general approach proposed, with five respondents disagreeing with the proposal.

Five of the respondents who agree with the proposal suggest that the PSC give further direction on when each approach is to be used. They suggest that the depreciated replacement cost approach be used in all cases except:

1. where impairment is due to physical damage, in which case the restoration cost approach should be used; and
2. where impairment is due to a change in the extent or manner of use of the asset, in which case the service units approach should be used.

Paragraph 42 of ED 23 provides indicative guidance of when to use the different approaches, staff believe that guidance is appropriate and sufficient.

The five respondents who disagreed with the proposal did so for various reasons:

1. two respondents argued that impairment should be measured by reference to value in existing use, and not any alternate use – and that this should be made clear in the IPSAS;
2. the third dissenting respondent argued that the IAS 36 approach should be used in all instances;

3. the fourth dissenting respondent argued that if the net selling price is not a reasonable estimate of an asset's value in use, then a buying price is not likely to be any more reliable; and
4. the final dissenting opinion expressed the view that depreciated replacement cost was inconsistent with historical cost and that a better alternative is to reduce the carrying amount by the proportion of impairment. However this respondent argued that it is preferable to have an independent valuation undertaken to estimate value in use.

### *Staff Recommendation*

Staff recommend that the existing provisions of the proposed IPSAS be retained as they are.

Staff do not believe that the IPSAS should mandate the use of a professional valuer to estimate value in use. Staff recommend that paragraph 36 be amended to include guidance indicating that the services of an independent professional valuer may be used to estimate value in use, the wording used should be similar to that in IPSAS 17, paragraph 40.

**(h) Whether the “depreciated replacement cost”, “restoration cost” and “service units” approaches are separate approaches or whether depreciated replacement cost encompasses the other two**

Separate Approaches	A	2
One Approach	B	17
No view expressed	C	12
<b>TOTAL</b>		<b>31</b>

The PSC asked respondents whether they thought the three approaches to determination of value in use set out in paragraphs 37 to 41 of ED 23 are separate approaches, as currently drafted, or whether the depreciated replacement cost approach is a broader approach that encompasses the other two approaches. As is indicated by the table above and Item 8.2, most respondents consider that depreciated replacement cost encompasses the other two approaches, however, most also consider the issue of whether there is one approach or three to be fairly minor. One respondent suggested that the PSC include guidance noting that “restoration cost” and “service units” approaches are techniques for calculating the depreciated replacement cost.

Two respondents consider the approaches to be separate approaches. One respondent stated that they were separate approaches with a common base. The other respondent did not elaborate on the reasons for considering the approaches to be separate.

Staff have researched conventional definitions of “depreciated replacement cost” in accounting and valuation literature. These generally express the common principle that depreciated replacement cost is based on an estimate of the current market value for the gross replacement (or reproduction) costs of the asset, less allowances for physical deterioration and all relevant forms of obsolescence and optimization.

*Staff Recommendation*

Staff recommend that the existing provisions of the proposed IPSAS be retained as they are. The guidance in ED 23 indicates that both the restoration cost approach and the service units approach use depreciated replacement cost as a basis for calculating the value in use. Depreciated replacement cost is then adjusted from the cost of restoration or reduced service potential. Staff are of the view that technically they cannot be said to be methods of calculating depreciated replacement cost, and must therefore be considered distinct methods of measurement, although under the same broad approach. Staff agree with the respondents who said that this is not a major issue.

**(i) Requirement to recognize an impairment loss and reduce the carrying amount of an asset**

Agree	A	21
Disagree	B	1
No view expressed	C	9
TOTAL		31

The PSC asked whether respondents agreed with the proposal to require entities 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. As indicated by the above table and Item 8.2, most respondents agree that an impairment loss should be recognized in the period in which the impairment is discovered, and the asset's carrying amount reduced accordingly.

The dissenting respondent suggested that the circumstances that caused the impairment may be relevant to determining whether the loss should be expensed in a single period or over several reporting periods.

*Staff Recommendation*

Staff recommend that the existing provisions of the proposed IPSAS be retained as they are. Staff believe that unless an impairment arose over several periods and remained undetected due to a fundamental error, as defined in IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*, an entity should recognize the impairment in the period in which it occurred.

**(j) Requirement to assess whether there is an indicator that an impairment loss is no longer present, or reduced**

Agree	A	19
Disagree	B	2
No view expressed	C	10
TOTAL		31

The PSC asked whether or not respondents agreed 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. As indicated by the above table and

Item 8.2, most respondents agree that entities should assess at each reporting date whether a previously recognized impairment no longer exists. One respondent agreed with the proposal but argued that, consistent with their response to item (e) above, an additional indicator of reversal of impairment should be included: that a significant, unexpected change in market value may indicate a reversal of impairment.

Two respondents disagreed with this proposal: one respondent disagreed with the principle that an impairment loss, once recognized, should be reversed: and the second argued that the indicators should only be assessed against significant items.

*Staff Recommendation*

Staff recommend that, consistent with the recommendation made with respect to item (e) above, paragraph 55 should be amended to require a change in market value to be unexpected.

**(k) Requirement to assess recoverable service amount when an indicator of reversal of impairment exists.**

Agree	A	19
Disagree	B	2
No view expressed	C	10
<b>TOTAL</b>		<b>31</b>

The PSC asked respondents if they agreed with the proposal to assess an asset's recoverable service amount when annual assessments indicate that a previous loss no longer exists. As the table above and Item 8.2 indicate, most respondents agree with this proposal. Two respondents disagreed with this proposal. One respondent disagreed with the principle that an impairment loss, once recognized, should be reversed. The other disagreed with the principle of using either buying or selling prices for determining impairment.

Staff believe that this proposal is consistent with the PSC's principles on recognizing impairment losses and reversal in respect of non-cash-generating public sector assets.

*Staff Recommendation*

Staff recommend that the existing provisions of the proposed IPSAS be retained as they are.

- (l) **Proposal to recognize a reversal of impairment loss 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, up to the ceiling set in paragraph 61.**

Agree	A	18
Disagree	B	1
No view expressed	C	12
TOTAL		31

The PSC asked if entities 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 recognize. The maximum reversal permitted would be an increase up to the amount that would be recognized in respect of the asset had no impairment loss been recognized. As indicated by the table above and Item 8.2, most respondents agree with this proposal.

Only one respondent disagreed with this proposal. This respondent is concerned that, as currently drafted, ED 23 only requires reversals to be recognized when there is a change in the estimates – there is no need for an entity to perform an assessment if there was no change in the estimates used. They suggest that the requirement should be to assess the estimates used in the prior year and, if necessary, further impair or reverse prior year impairments.

Staff note that paragraph 58 of ED 23 is identical to paragraph 99 of IAS 36. Staff believe that the ED proposes that if the estimate of the impairment loss changes because one of the factors used in that estimate changes, the impairment loss should be reversed.

#### *Staff Recommendation*

Staff recommend that the existing provisions of the proposed IPSAS be retained as they are.

#### **(m) Disclosures**

Agree	A	20
Disagree	B	0
No view expressed	C	11
TOTAL		31

The PSC asked if the disclosures in paragraphs 65 and 68 – 70 were appropriated. Most respondents agree with the disclosures and none disagree with them. One respondent recommended that the PSC review the disclosures in IASB ED 3 *Business Combinations*, which proposes amendments to IAS 36. This respondent is of the view that the disclosures in IASB ED 3 are clearer.

#### *Staff Recommendation*

Staff recommend that the existing provisions of the proposed IPSAS be retained as they are. However, if the IASB publishes a revised IAS 36 prior to the finalization of this IPSAS, then the provisions of that revised standard should be reviewed.

### **Additional Issue – Examples in Appendix B**

Several comments were made in respect to the examples in Appendix B. They indicate that some tightening of the examples may be required. Detailed comments are included in Item 8.2.

Several respondents noted the strong emphasis on physical assets, and argued that there should be examples of intangible assets. Staff agree with this view and will prepare examples of intangible assets to be included in the final draft IPSAS. Other major issues are dealt with below.

#### *Example 3 – School Partially Closed due to decline in enrolment*

RICS ask why, if two thirds of a school is permanently closed, is the carrying amount of the school not reduced by two thirds? They argue that this would be a much simpler calculation, is faithful to the historic cost model, and compares like with like. They argue that comparing the building cost of a one storey building with that of a three storey building needs to be justified more explicitly in the IPSAS. RICS would also apply this approach to examples 6 and 7. Staff note that this illustrates RICS' proposed alternative measurement technique. Staff note that the method of recognizing an impairment loss suggested by RICS would conflict with the PSC's definition of value-in-use, which is the present value of the remaining service potential of the asset. Value in use is measured using the depreciated replacement cost approach, the restoration cost approach or the service units approach.

#### *Example 4 – School Bus damaged in road accident*

CIPFA suggested that if the bus is unusable at reporting date, then its value-in-use must be zero. Staff are of the view that value in use is assessed over the life of assets, therefore a damaged asset, which cannot be used at a particular point in time can still have value-in-use because it can be repaired and used (or sold).

Geoff Harry suggests that in the circumstances, the bus is likely to be insured and that the impact of insurance should be considered. Staff note that the revised version of IPSAS 17 *Property, Plant and Equipment* being discussed in Agenda Item 12 proposes to deal with insurance recoveries.

#### *Staff Recommendation*

Staff recommend that the examples be retained as they are, subject to any refinements noted by members, or editorial changes. Staff recommend that that insurance recoveries be dealt with by the improved IPSAS 17.

**Matthew Bohun**  
**TECHNICAL MANAGER**

**ATTACHMENT 8.2 – SUMMARY OF RESPONDENTS’ VIEWS ON  
EXPOSURE DRAFT**

ED 23 Impairment of Assets

**SUMMARY OF OVERALL VIEW**

SUPPORT (Subject to comments made)	A	24
DOES NOT SUPPORT	B	4
NO CLEAR VIEW	C	3
TOTAL		31

	NAME	VIEW	COMMENT
1	Australian Accounting Standards Board (AASB)	A	Further improvements could be made as noted in comments to the specific matters for comment.
2	CPA Australia	A	Whilst CPA Australia supports the adoption of ED 23, it notes that the IPSAS 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.
3	Botswana Institute of Accountants (BIA)	C	Studied the ED and have no further comment.
4	Government Accounting Standards Advisory Board of India (GASABI)	A	
5	Japanese Institute of Certified Public Accountants (JICPA)	A	

6	Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA)	A	
7	Institute of Chartered Accountants of New Zealand (ICANZ)	A	ICANZ believe that in respect of non-cash generating assets, the proposed IPSAS will be helpful. ICANZ believe that the proposed IPSAS could be simplified, particularly in relation to the three methods for estimating value in use. ICANZ believe the proposed IPSAS should be as close to IAS 36 as possible and any unnecessary differences eliminated.
8	Institute of Cost and Management Accountants of Pakistan (ICMAP)	C	
9	Accounting Standards Board of South Africa (ASB-SA)	A	
10	Föreningen Auktoriserade Revisorer (FAR)	A	FAR is supportive of the implementation of ED 23, however, in order to increase acceptance of, and compliance with, the final IPSAS, FAR sees a need for strengthening the parts concerning the external and internal indicators. FAR is concerned that many public sector entities may have severe problems handling such detailed and disciplined regulations, 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, FAR believes it might be helpful to have the more practical steps described in more detail.
11	National Board of Accountants and Auditors of Tanzania (NBAA)	A	
12	Accounting Standards Board of the United Kingdom (ASB-UK)	C	

13	Association of Chartered Certified Accountants (ACCA)	B	ACCA has provided lengthy comments that indicate that it is uncomfortable with applying the principles in IAS 36 to public sector assets that are held primarily to provide services at the request of the government. Impairment of these assets should be recognized in terms of their inability to provide the services required.
14	Chartered Institute of Public Finance and Accountancy (CIPFA)	B	CIPFA is uncomfortable with using selling prices as an estimate of the value in use of a non-cash-generating public sector asset.
15	The Institute of Chartered Accountants of England and Wales (ICAEW)	A	ICAEW believes that the proposed IPSAS, and other IPSASs, could be applied equally to charities, and have made comments in this regard.
16	Comptroller General of British Columbia (CGBC)	B	CGBC did not make a general comment either supporting or not supporting the IPSAS, however their comments in relation to specific matters for comment indicate that they would not favor issuing the IPSAS in its current form.
17	New Zealand Treasury (NZT)	A	NZT have two significant concerns. First that the ED specifically excludes non-cash generating property plant and equipment, NZT disagrees with this exclusion, which is not in harmony with IAS 36. Secondly, the ED makes reference to the net selling price as a point of reference for calculating the impairment of assets. The “net” approach is inconsistent with the approach for determining fair value in the IASs.
18	Contaduría Pública de la Nación de Perú (CPNP)	A	CPNP agree with the proposed IPSAS which is in harmony with the accounting standards in use in Perú.
19	Swedish National Financial Management Authority (ESV)	A	ESV believe that an asset should not be impaired just because the replacement cost is lower than the carrying amount. If there is no indicator that that asset may be impaired the entity should not estimate recoverable service amount.
20	Swiss Federal Office of Finance and the Conference of Cantonal Ministers of Finance (Swiss Finance)	A	

21	Australian members of the Australasian Council of Auditors General (ACAG)	A	ACAG 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. ACAG believe that in future the PSC should consider the IASB's latest proposals when developing an ED.
22	Office of the Auditor General (OAG-NZ)	A	
23	Audit Commission (AC-UK)	A	AC-UK believe that non-cash generating assets carried at fair value should be included within the scope of the IPSAS, they are not convinced by the assertion in paragraph 7 that the regularity of revaluation compensates of the lack of an applicable standard on impairment.  AC-UK believe some guidance should be provided on calculating net selling price as it is mentioned in several places in the proposed IPSAS.
24	International Valuation Standards Committee (IVSC)	A	IVSC are of the view that the ED should be applied to property, plant and equipment that is carried at fair value, as is the case in IAS 36.
25	Geoff Harry (GH)	A	
26	Jean-Bernard Mattret (J-BM)	A	J-BM suggests simplifying the IPSAS to apply only to assets recognized under IPSAS 16 and 17.
27	Pricewaterhouse Coopers New Zealand (PWCNZ)	A	
28	Mr MOAR Medani (MOARM)	A	
29	The Royal Institution of Chartered Surveyors (RICS)	B	RICS' comments are made in the context of being committed to a single set of international valuation standards, without commenting on any proposed accounting treatment. RICS have serious reservations about the depreciated replacement cost method, which, they argue, overstates the value in use of an impaired asset.
30	National Housing Federation (NHA-UK)	A	NHA-UK are of the view that the IPSAS should be extended to consider fully the impairment of revalued assets. NHA-UK considers that the IPSAS should state explicitly that an impairment loss may not be offset by an increase in the value of another asset.

31	Her Majesty's Treasury – UK (HMT)	A	HMT agree that an IPSAS on impairment of non-cash-generating assets should be developed. HMT do not believe that market value is an appropriate measure for most of these assets, their preferred measure of “fair value” is “deprival value”.
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**SPECIFIC MATTER FOR COMMENT (a)**

Respondents were asked if they agree with the proposal to include in the scope of the proposed IPSAS, agricultural assets, goodwill and all other identifiable intangible assets not explicitly excluded in paragraph 1 of ED 23. 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;

Agree	A	11
Agree, except for non-cash generating PP&E carried at revalue amounts	B	12
Disagree	C	4
No view expressed	D	4
<b>TOTAL</b>		<b>31</b>

	NAME	VIEW	COMMENT
1	AASB	A	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.
2	CPA Australia	B	<p>CPA Australia agrees with this proposal except for non-cash generating property, plant and equipment measured at fair value under IPSAS 17. CPA Australia disagrees with the exclusion of property, plant and equipment measured at fair value. This exclusion creates an unnecessary difference between the proposed IPSAS and the Dec 02 ED of IAS 36. That ED explains how a revalued asset may be impaired, including:</p> <ul style="list-style-type: none"> <li>• Where the assets' fair value is it's market value, the only difference between fair value and net selling price is the</li> </ul>

			<p>direct incremental cost to dispose of the asset; and</p> <ul style="list-style-type: none"> <li>Where fair value is determined on a basis other than market value, its revalued amount may be greater or lower than its recoverable amount.</li> </ul> <p>CPA Australia believes that the IPSAS should be aligned with the proposed IAS 36.</p>
3	BIA	D	
4	GASABI	A	
5	JICPA	C	JICPA does not agree with the proposal to include agricultural assets and goodwill in the scope of the IPSAS because they do not expect such assets to arise in the public sector in a non-cash-generating context. JICPA recommends discussing the impairment of these assets after identifying the existence of these assets in the public sector. Other intangible assets should be included.
6	Royal NIVRA	A	Would prefer to reduce the references to other IPSASs and name all the relevant assets that are included within the scope of the IPSAS – this would improve the readability of the IPSAS.
7	ICANZ	B	ICANZ agree with the proposal to exclude from the scope of the proposed IPSAS those assets categories listed in paragraph 1, except for (iv) in relation to property, plant and equipment. ICANZ do not believe that there is any public sector specific reason for departing from the provisions of IAS 36 in this regard.
8	ICMAP	A	Trading assets and assets available for sale should not be subject to impairment testing when carried at fair value.
9	ASB-SA	A	ASB-SA favor the general principle of the scope, that is apply to all non-cash-generating assets except those measured at fair value, however they believe it should be more consistently applied. Therefore, agricultural assets measured at fair value should be excluded from the scope, as the measurement of fair value will take account of any impairment. Goodwill and intangible assets related to cash-generating activities and should be excluded, if there are non-cash-generating assets of this type additional guidance and public sector specific examples are required. ASB-SA agree with the exclusion of property, plant and equipment and investment property carried at fair value. However the IPSAS should specifically note that where property, plant and equipment are measured using the benchmark treatment in IPSAS

			17, the IPSAS on impairment would apply. Similarly, the IPSAS should specifically note that where investment property is measured using the allowed alternative in IPSAS 16, the IPSAS on impairment would apply. The ASB-SA agrees with the other exclusions.
10	FAR	D	
11	NBAA	A	NBAA recommends that the scope of the proposed standard include agriculture assets, goodwill and other identifiable intangible assets not explicitly excluded in paragraph 1 of the ED.
12	ASB-UK	B	ASB-UK are concerned that the proposed IPSAS 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. Para 7 notes that the frequency of revaluations should ensure that impairment is incorporated in the value of the asset – this is equally true of cash-generating assets held at fair value. ASB-UK does not view the revaluation process as negating the need for impairment testing. IAS 36 requires all fixed assets to be tested for impairment where there is an indicator of impairment – irrespective of how they are valued. ASB-UK suggest that the proposed IPSAS can and should include all property, plant and equipment irrespective of its valuation basis.
13	ACCA	B	ACCA has reservations about the extension of the scope of the IPSAS to identifiable intangible assets. ACCA believes that the treatment of such assets requires further consideration and will depend in part on the outcome of the PSC's Non-Exchange Revenue project. ACCA expressed similar concerns to those of ASB-UK about the exclusion of property, plant and equipment carried at fair value from the scope of the IPSAS.
14	CIPFA	B	CIPFA is satisfied with the scope of the proposed IPSAS with the exception of the exclusion of non-cash-generating property, plant and equipment measured at fair value. CIPFA reasons are the same as those of the ASB-UK.
15	ICAEW	B	ICAEW agree with the scope of the proposed IPSAS with the exception of the exclusion of non-cash-generating property, plant and equipment measured at fair value. ICAEW reasons are the

			same as those of the ASB-UK.
16	CGBC	C	CGBC state that under Canadian public sector accounting standards goodwill and other identifiable intangible assets are not recognized. CGBC also state that the impairment of agricultural land based on replacement cost would not be appropriate.
17	NZT	B	NZT agree that the IPSAS should apply to all non-cash generating assets that are not excluded in paragraph 1, however NZT disagrees with excluding non-cash generating property, plant and equipment measured at fair value, which is inconsistent with IAS 36. NZT suggest that the PSC take up the matter with the IASB to ensure that IAS 36 and the IPSAS are in harmony.
18	CPNP	D	
19	ESV	A	ESV believe that in the absence of an IPSAS equivalent of IAS 41 <i>Agriculture</i> IPSAS 17 would permit agricultural assets to be measured at historical cost, in which case the proposed IPSAS on Impairment should apply to those assets.
20	Swiss Finance	A	
21	ACAG	B	ACAG agree with the scope except for one item. ACAG disagree with the proposal to exclude property, plant and equipment carried at fair value from the scope of the IPSAS. They state that IAS 36 does not make such an exclusion, and there seems little point in not making this IPSAS align as closes as possible with IAS 36.
22	OAG-NZ	A	
23	AC-UK	B	AC-UK consider the scope broadly appropriate, except for the exclusion of non-cash-generating property, plant and equipment carried at fair value.
24	IVSC	B	IVSC believe that assets carried at fair value should also be subject to impairment testing.
25	GH	A	
26	J-BM	C	JB-M suggests that the scope should be limited to investment property and property, plant and equipment.
27	PWCNZ	A	PWCNZ suggest simplifying the scope to include all assets except those assets in respect of which accounting requirements are included in another IPSAS. They argue that this would automatically exclude all those listed in paragraph 1, and assets

			carried at fair value in IPSAS 16 and 17.
28	MOARM	C	MOARM believes that agriculture assets, goodwill and intangible assets should be excluded from the scope of the IPSAS and addressed in specific IPSASs on those topics.
29	RICS	D	
30	NHA-UK	B	NHA-UK are concerned that the indications of impairment, the valuation of assets at depreciated replacement cost and proposals in respect of reversals of impairment loss do not adequately consider intangible assets. NHA-UK argue that if the IPSAS is going to encompass goodwill and intangibles (and NHA-UK thinks it should) then those items should be treated comprehensively.
31	HMT	B	

**SPECIFIC MATTER FOR COMMENT (b)**

Respondents were asked if they agree with 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).

Agree	A	13
Disagree	B	10
No view expressed	C	8
<b>TOTAL</b>		<b>31</b>

	NAME	VIEW	COMMENT
1	AASB	A	AASB staff believe that the focus on the generation of a “commercial rate of return” should be retained in the definition.
2	CPA Australia	B	<p>CPA Australia supports 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 and further clarified. Do the assets of a service that makes a marginal return (and is heavily subsidized by the 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.</p> <p>The proposed definitions of GBEs include those GBEs that break even in their operations. CPA Australia believes that the definition for GBEs should refer to the objective of the entity rather than to its actual performance. For examine 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 AASB propos is “A not-for-profit entity” is an entity whose principal objective is not the generation of profit”. Under this definition an</p>

			entity pursuing cost-recovery rather than profit would be a not-for-profit entity.
3	BIA	C	
4	GASABI	B	GASABI notes that GBEs in India do, on occasion, hold material non-cash-generating assets (contradicting paragraph C18(b) of Appendix C). The definition of “cash generating asset” could be amended to refer only to assets held to generate a commercial rate of return.
5	JICPA	C	
6	Royal NIVRA	A	Royal NIVRA suggest that the IPSAS make a few explanatory remarks on assets held by public sector entities. Assets in the public sector are often non-cash-generating and have typical features. These features have consequences for the guidelines incorporated in this ED.
7	ICANZ	B	ICANZ believe that there is an inconsistency between the definition of GBE and “cash generating assets” in that the definition of GBE does not make reference to a commercial rate of return. ICANZ believe that the definition should be: “Cash generating assets are assets held to generate a commercial rate of return.”
8	ICMAP	C	
9	ASB-SA	A	ASB-SA recommends that more guidance should be included in the proposed Standard to distinguish between a cash-generating and a non-cash-generating asset. In providing this guidance, consideration should be given to the inclusion of relevant public sector specific examples.
10	FAR	C	
11	NBAA	A	
12	ASB-UK	B	The ASB- UK notes that 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. In the view of the ASB-UK, such assets should be tested for impairment in accordance with IAS 36, therefore it would seem sensible for the key attribute to be significant cash inflows or the aim to be profit making (without specifying the level) rather than a commercial rate of return.
13	ACCA	B	ACCA considers that whether or not assets are considered to be cash generating should be

			determined by the objectives of the entity that controls them. The ED considers all assets controlled by a GBE to be cash generating, even if the GBE does not have as its prime objective the generation of a commercial rate of return. ACCA believes that the nature of other public sector assets should be determined by the objective of holding the asset rather than by the objective of the asset.
14	CIPFA	A	
15	ICAEW	A	ICAEW state that in relation to charities, this definition would encompass fixed assets used by charities for investment or to generate a cash flow in the course of non-primary-purpose trading and fundraising activities. This definition 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. This would be especially true where these earnings are less than a commercial return.
16	CGBC	B	CGBC agrees with (a), which agrees with Canadian standards, but disagrees with (b) because it conflicts with Canadian standards.
17	NZT	B	NZT finds the current definition confusing. Recommend that it should be “Cash-generating assets are all assets held to generate a commercial rate of return. This includes all assets held by GBEs.”
18	CPNP	C	
19	ESV	A	ESV are of the view that it can be difficult to determine which assets should be classified as cash-generating assets. For example, in Sweden some public sector entities use a full cost pricing model, these entities normally operate monopolies, so the public have no choice but to use their services, which cannot really be said to be operating on a commercial basis. Should these assets be classified as cash-generating?
20	Swiss Finance	A	Swiss Finance consider that the “commercial rate of return” to be feasible, but expect some variation in interpretation in practice.
21	ACAG	B	ACAG notes that paragraph 11 states that GBEs are profit-oriented entities, this is not supported by the definition in paragraph 13 which refers to “make a profit or fully recover costs”. ACAG

			suggest that the definition of GBE be changed. ACAG also believe that the IPSAS should refer to the objective of an entity rather than its actual performance, that is use the term “profit oriented” rather than “profit making”.
22	OAG-NZ	B	OAG-NZ 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. OAG-NZ is of the view that the definition should be more generic in order to be transportable. OAG-NZ suggest the definition be amended to “cash-generating assets are assets held to generate a commercial rate of return.” OAG-NZ also recommend the inclusion of a commentary paragraph to emphasize that at group level the assets would continue to be treated as they were in the financial statements of the individual entity.
23	AC-UK	A	
24	IVSC	C	
25	GH	A	
26	J-BM	C	
27	PWCNZ	B	PWCNZ state that the definition of “cash-generating assets” in paragraph 13 is inconsistent with the commentary in paragraph 15. PWC NZ believe paragraph 15, which focuses on individual assets is appropriate and that the definition, which focuses on the entity, should be amended.
28	MOARM	A	
29	RICS	C	
30	NHA-UK	A	NHA-UK are uncertain whether situation can arise where GBEs hold assets other than to generate cash, but if such circumstances exist, then the definition of cash-generating assets should be “assets held by public sector entities to generate a commercial rate of return”.
31	HMT	A	

**SPECIFIC MATTER FOR COMMENT (c)**

Respondents were asked if they agree with 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.

Agree	A	20
Disagree	B	2
No view expressed	C	9
TOTAL		31

	NAME	VIEW	COMMENT
1	AASB	A	
2	CPA Australia	A	
3	BIA	C	
4	GASABI	A	GASABI notes that it may be necessary, in the case of assets under construction, to distinguish a suspension/postponement of construction from a complete abandonment of construction.
5	JICPA	C	
6	Royal NIVRA	C	
7	ICANZ	A	ICANZ agree with the list of indicators and that it is not exhaustive. However, ICANZ do not consider that there is a public sector specific reason for the inclusion of the words “long term”, they consider that it will not be possible to determine whether or not a change is “long term” and recommend that the phrase be deleted.
8	ICMAP	C	
9	ASB-SA	A	ASB-SA believe that the PSC need to recognize in proposing the implementing date of this IPSAS 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.
10	FAR	C	
11	NBAA	A	
12	ASB-UK	C	

13	ACCA	B	ACCA believes that the requirement for entities to assess whether 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.
14	CIPFA	A	
15	ICAEW	A	
16	CGBC	B	CGBC argues that a requiring an annual assessment of impairment would be onerous. They argue that paragraph 19 is an unnecessary duplication of paragraph 18 and should be deleted.
17	NZT	A	
18	CPNP	C	
19	ESV	A	
20	Swiss Finance	A	Swiss Finance believe that for practical reasons, indicators of impairment are often assessed earlier in the year, when preparing the budget for the following year. The gap of a few months should not necessitate the assessing of these indicators twice per year, therefore, Swiss Finance recommend replacing the phrase “at each reporting date” with “for each reporting period” in paragraph 19.
21	ACAG	A	ACAG recommend that the set of indicators should include whether evidence exists that assets are obsolete plus decline in market value.
22	OAG-NZ	A	
23	AC-UK	A	
24	IVSC	A	IVSC believe that the list of indicators is helpful but is weakened by the lack of definitions for “service potential” and “service performance”.
25	GH	A	
26	J-BM	C	

27	PWCNZ	A	PWCNZ believe the structure of this section of the proposed IPSAS 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 that these are circumstances that do indicate there may be impairment. PWC NZ believes that all indicators of impairment should be presented together. PWC NZ further believes that the use of the qualifying term "long-term" in several places is inappropriate and may lead to impairment losses not being identified and recognized.
28	MOARM	A	MOARM suggests adding "and alike" to the first sentence of paragraph 20, to clearly indicate that other indicators have similar characteristics to those listed in (a) to (f).
29	RICS	C	
30	NHA-UK	A	NHA-UK are concerned that the paragraph 20 indicators of impairment do not adequately cover all types of intangible assets, in particular goodwill, and consider that the minimum set of indicators should be more extensive.
31	HMT	A	

**SPECIFIC MATTER FOR COMMENT (d)**

Respondents were asked if they agreed with the proposal to estimate an asset's recoverable service amount when an indicator of impairment is present at the reporting date (paragraph 19).

Agree	A	22
Disagree	B	0
No view expressed	C	9
<b>TOTAL</b>		<b>31</b>

	NAME	VIEW	COMMENT
1	AASB	A	AASB staff believe the IPSAS arising from ED23 should continue to stress that the recoverable service amount should be determined only if an indicator of impairment exists.
2	CPA Australia	A	CPA Australia agrees with the process but the term "recoverable service amount" is problematic since recoverability is traditionally used to indicate an "exit" price. In this context, the term is not an accurate reflection of the intention of this proposal.
3	BIA	C	
4	GASABI	C	
5	JICPA	C	
6	Royal NIVRA	C	
7	ICANZ	A	
8	ICMAP	A	ICMAP believes the same approach to that adopted in business should be used, that is impairment exists when an assets carrying amount is greater than its recoverable amount (which equals its fair value).
9	ASB-SA	A	
10	FAR	C	
11	NBAA	A	
12	ASB-UK	A	The ASB-UK notes that 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-UK's "Statement of Principles".

13	ACCA	A	ACCA do not believe that paragraphs 19 and 20 are clear or easy to understand. ACCA believe that a public sector asset will be impaired if its service potential over the course of its expected useful life is significantly reduced.
14	CIPFA	A	
15	ICAEW	A	
16	CGBC	A	CGBC agrees in principal, however CGBC considers that the impairment loss should be highly probable before being recognized.
17	NZT	A	
18	CPNP	C	
19	ESV	A	ESV believe that many entities will have difficulties in estimating the value in use and net selling price of assets. ESV also believe that there will be few occasions when heritage assets would be impaired under ED 23, even if an indicator of impairment is present, because of the difficulty in measuring value in use.
20	Swiss Finance	A	Swiss Finance believe that the practical application of the concept of recoverable service amount is difficult because the value in use may be difficult to calculate.
21	ACAG	A	
22	OAG-NZ	A	
23	AC-UK	A	
24	IVSC	C	
25	GH	A	
26	J-BM	C	
27	PWCNZ	A	
28	MOARM	A	
29	RICS	C	
30	NHA-UK	A	
31	HMT	A	

**SPECIFIC MATTER FOR COMMENT (e)**

Respondents were asked if they agree with 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	A	14
Disagree	B	9
No view expressed	C	8
<b>TOTAL</b>		<b>31</b>

	NAME	VIEW	COMMENT
1	AASB	B	AASB staff 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. AASB staff propose that the “significant decline in the market value of an asset” be added to the minimum list of indicators of impairment but that the commentary should explain the circumstances in which the indicator is most relevant. AASB staff propose that an increase in the market value also be included in the minimum set of indicators of reversal of an impairment loss. AASB staff do not see a public sector specific reason to depart from IAS 36 in regards to these indicators.
2	CPA Australia	B	CPA Australia believes that a significant decline in an asset’s market value is important enough to be included in the black letter requirements of paragraph 20. Changing it to black letter would make the IPSAS consistent with IAS 36.
3	BIA	C	
4	GASABI	C	
5	JICPA	C	
6	Royal NIVRA	C	
7	ICANZ	B	ICANZ disagree with the proposal to exclude decline in market value from the list of minimum indicators of impairment. They argue that:  there is no public sector specific reason for differing from IAS 36;  that exclusion would be inconsistent with the objective of the impairment test (to ensure that the carrying amount of an asset does not exceed its

			recoverable amount); and that in some cases a decline in market value may be the only observable indicator of changes adversely affecting an entity.
8	ICMAP	B	ICMAP believes that a significant decline in market value is an important indicator of impairment.
9	ASB-SA	A	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.
10	FAR	C	
11	NBAA	A	
12	ASB-UK	C	
13	ACCA	A	ACCA agrees with the proposal and supports the view that market values are usually a poor indicator of the value in use of a public sector asset.
14	CIPFA	B	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.
15	ICAEW	A	
16	CGBC	A	CGBC state that the primary consideration should be the utility of the asset and not its market value. Market value may be an additional indicator of impairment in the presence of another indicator.
17	NZT	B	NZT disagree with this proposal because, in this instance, NZT cannot identify why there is a need to distinguish between the black and grey letter indicators.
18	CPNP	C	
19	ESV	A	
20	Swiss Finance	A	
21	ACAG	B	ACAG 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.
22	OAG-NZ	B	OAG-NZ see no reason why there should be separate (i.e. black letter and gray letter) lists of indicators.
23	AC-UK	A	AC-UK support the intention, however they have a slight concern that market value is a key element in determining the recoverable amount. If net selling price is determined solely with reference to the existing use of the asset (as is the case in the UK local government sector) then changes in market value are unlikely to be significant.
24	IVSC	A	IVSC are of the view that in the public sector in respect of property, plant and equipment, there is generally no directly applicable market evidence, and value would be premised on a different or alternative use.
25	GH	A	
26	J-BM	C	
27	PWCNZ	B	PWCNZ disagree with the distinction between black letter and grey letter indicators of impairment.
28	MOARM	A	MOARM notes that impairment reflects a decline in the utility of an asset to the entity, while the decline in market value may be due to market forces such as the law of supply and demand.
29	RICS	A	RICS note that it is proposed to exclude a decline in market value from the list of minimum indicators for impairment but is permitted to recognize such a decline as a subsidiary factor. This separation is reasonable where the amounts are based on historic cost although there will be circumstances where the net selling price may be higher than the recoverable service amount and therefore an assessment of net selling price may be necessary. However where revaluations or current values are used, 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 update carrying amounts between valuations by an external valuer.
30	NHA-UK	A	NHA-UK argue that for non-cash-generating assets, a decline in market value should only be considered an indicator of impairment if the asset

			is held specifically for sale.
31	HMT	A	HMT agree with this proposal as it is consistent with their view that market value is not the only way to value an asset in the public sector. However, HMT states that it is clearly inconsistent with IPSAS 17 that would value an asset usually on the basis of market value.

**SPECIFIC MATTER FOR COMMENT (f)**

Respondents were asked 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.

Include	A	18
Do not include	B	4
No view expressed	C	9
<b>TOTAL</b>		<b>31</b>

	NAME	VIEW	COMMENT
1	AASB	B	AASB staff 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.
2	CPA Australia	B	CPA Australia is concerned about the practical application of “demand” driven valuations. Demand for public services is driven by a range of factors and in many cases the utilization 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 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 “utilization” rate and then embark on a process of trying to identify whether or not there is some measurable diminution is the value of the asset.
3	BIA	C	
4	GASABI	A	GASABI are of the view that the IPSAS should contain guidance in relation to impairments that are likely to be reversed, to prevent frequent, unnecessary recognition of impairment losses and reversals.
5	JICPA	C	
6	Royal NIVRA	C	
7	ICANZ	A	
8	ICMAP	C	
9	ASB-SA	A	ASB-SA agree with the proposals outlined in paragraph 20 and 53. The intention was to provide a “safe harbor” and not to trigger premature impairment tests to be undertaken. Only significant events with long term adverse effects should trigger an impairment review. Impairment tests need to reflect the fact that assets in the public sector do not generate cash inflows in the long term.
10	FAR	C	
11	NBAA	A	
12	ASB-UK	A	The ASB-UK takes 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 utilized to provide expected goods or services, i.e. it fulfills 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 recognizes a significant long term decline might be an indicator, ASB-UK suggest this should be included in the minimum set of indicators.
13	ACCA	A	ACCA considers 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).

14	CIPFA	A	CIPFA notes that there will be difficulties in practice in applying the first of these indicators, particularly in assessing whether the decline in demand is short term. Given this difficulty, it may be useful to emphasize the need for the decline in demand to be “significant”, over the need for it to be “long term”.
15	ICAEW	A	
16	CGBC	B	CGBC agree with (a) if the IPSAS stipulates that the indication can be determined with a high degree of certainty and probability of permanence. CGBC disagree with (b) because Canadian GAAP does not permit the reversal of impairment losses, CGBC agree with Canadian GAAP because the use of professional judgment could result in the manipulation of the surplus/deficit.
17	NZT	A	
18	CPNP	C	
19	ESV	A	
20	Swiss Finance	A	
21	ACAG	A	
22	OAG-NZ	A	OAG-NZ suggest adding “obsolescence” to the indicators.
23	AC-UK	A	AC-UK believe that it is important that the demand indicator stress the need for the change in demand or need for services to be significant to avoid unnecessary impairment reviews being undertaken.
24	IVSC	C	
25	GH	A	GH states that this proposal is acceptable as long as there is clarity around what represents a reversal of impairment compared with what represents revaluation.
26	J-BM	C	
27	PWCNZ	A	
28	MOARM	B	Disagree that a fall (resurgence) in demand is an indicator of impairment (reversal of impairment) as it is related to the law of supply and demand.
29	RICS	C	
30	NHA-UK	A	NHA-UK considers that the minimum set of indicators should include a long term reduction in demand or need for services that is not expected to

			reverse. NHA-UK therefore consider than 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.
31	HMT	A	HMT strongly believe that changes in demand for an asset should be included as a minimum indicator of impairment. They state that 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 impairment.

**SPECIFIC MATTER FOR COMMENT (g)**

Respondents were asked whether they agree with 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).

Agree	A	19
Disagree	B	5
No view expressed	C	7
TOTAL		31

	NAME	VIEW	COMMENT
1	AASB	A	Agree subject to comments made in respect of specific matter for comment (h).
2	CPA Australia	A	
3	BIA	C	
4	GASABI	A	
5	JICPA	A	JICPA are of the view that restoration cost, and service units approach should be considered secondary to depreciated replacement cost, this should be made clear in the paragraphs 37 to 41.
6	Royal NIVRA	C	Royal NIVRA believe that the IPSAS should identify the preferred measurement approach. What measurement approach should be adopted if the value in use of an asset cannot be determined?
7	ICANZ	A	ICANZ agree with the general approach of estimating value in use for non-cash flow assets, however, they believe the approach could be simplified considerably. ICANZ provide details of the approach adopted in New Zealand and encourage the PSC to consider this approach when finalizing the IPSAS (see table of other comments).
8	ICMAP	B	ICMAP argues that impairment should be measured with respect to the recoverable amount (which equals fair value).
9	ASB-SA	A	ASB-SA recommend the inclusion of further guidance in the proposed IPSAS on how management should determine replacement or reproduction cost and when the restoration cost or service units 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's replacement cost.
10	FAR	C	
11	NBAA	A	
12	ASB-UK	C	
13	ACCA	B	ACCA notes that the three methods of estimating value in use provided in the ED all relate to the current cost of obtaining the asset. ACCA is of the view 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.
14	CIPFA	B	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. Only where it is not plausible to obtain a market value in existing use, should depreciated replacement cost, restoration cost or the service units approach be used.
15	ICAEW	A	
16	CGBC	A	CGBC note that determining the replacement value of impaired assets could be problematic for assets developed internally or for special purpose assets purchased externally.
17	NZT	A	In general, NZT agrees with the approach of estimating value in use, however, NZT believes that the existing approaches should be amalgamated to simplify the IPSAS.
18	CPNP	C	
19	ESV	A	
20	Swiss Finance	A	Swiss Finance believe that the three approaches are not equally easy to implement. While the restoration cost and service unit approaches should not cause too many difficulties, the depreciated replacement cost approach requires a good data source and more sophisticated techniques.
21	ACAG	A	
22	OAG-NZ	A	OAG-NZ suggest it be clarified in the IPSAS that the restoration costs and service units approaches should be applied only when impairment arises from physical damage or a reduced expected number of service units, respectively.
23	AC-UK	A	

24	IVSC	C	
25	GH	A	An additional approach that should be considered in a public sector context is the cost of reproducing an impaired asset, that is producing an identical, new asset.
26	J-BM	C	
27	PWCNZ	A	
28	MOARM	A	
29	RICS	B	RICS provided no comment directly on this comment, however, given their comments on the Appendix B examples, and their comments on matter (i), it is clear that they have serious reservations about using depreciated replacement cost to measure impairment losses. They argue that depreciated replacement cost overstates the value in use of the impaired value. They argue that it would be better, and more consistent with the historic cost model, to decrease the carrying value of the asset by the proportion of impairment. They argue that it would be better to have the impaired asset revalued.
30	NHA-UK	B	NHA-UK consider that it is inappropriate to value social housing at depreciated replacement cost. They argue that Existing Use Value, is more appropriate, especially in areas where housing prices are increasing rapidly, they argue that in such circumstances depreciated replacement cost would over state the value in use of these non-cash-generating assets.
31	HMT	A	

**SPECIFIC MATTER FOR COMMENT (h)**

Respondents were asked 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.

Separate Approaches	A	2
One Approach	B	17
No view expressed	C	12
<b>TOTAL</b>		<b>31</b>

	NAME	VIEW	COMMENT
1	AASB	B	AASB staff 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.
2	CPA Australia	B	The three approaches 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.
3	BIA	C	
4	GASABI	B	
5	JICPA	B	JICPA consider that the restoration cost and service units approaches are methods of measuring depreciated replacement cost.
6	Royal NIVRA	C	
7	ICANZ	B	ICANZ consider that depreciated replacement cost is a broad approach and that it should be defined to encompass the restoration cost approach and the service units approach.
8	ICMAP	C	
9	ASB-SA	B	ASB-SA are of the view that the ED describes 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. ASB-SA recommends 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. ASB-SA further recommend that guidance be given as to whether the market value or the optimized value of an asset should be used when applying the depreciated replacement cost.
10	FAR	C	
11	NBAA	A	The three approaches to determine value in use as set out in paragraph 37 to 41 should be used as described in the ED.
12	ASB-UK	C	
13	ACCA	C	ACCA do not consider that the implications of these alternative views are significant.
14	CIPFA	B	
15	ICAEW	A	ICAEW state that, arguably, depreciated replacement cost encompasses the other two approaches, but as ICAEW believe that it is correct to allow all three they can see no practical objection to the proposals in the ED.
16	CGBC	B	CGBC believe that the Restoration Cost approach duplicates the depreciated replacement cost approach.
17	NZT	B	NZT believes that depreciated replacement cost 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 depreciated replacement cost.
18	CPNP	C	
19	ESV	B	
20	Swiss Finance	C	Swiss Finance are of the view that the depreciated replacement cost approach is the theoretically superior approach, the others may be easier to implement, therefore all three approaches should be included in the IPSAS.

21	ACAG	B	ACAG do not believe that the approaches 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 ACAG's view, for the approaches to be separate the base would need to be different for each method. The base for the restoration cost approach should be the cost of repairing existing damage, and for service units the effects of any existing service limitations.
22	OAG-NZ	B	
23	AC-UK	B	
24	IVSC	C	
25	GH	C	GH does not see the significance of whether they are separate approaches or part of one broader approach.
26	J-BM	C	
27	PWCNZ	B	PWCNZ believe the restoration cost and service units approaches are subsets of depreciated replacement cost, and would be better addressed within discussion paragraphs on how to apply the depreciated replacement cost approach.
28	MOARM	A	MOARM considers these to be separate approaches with a common base.
29	RICS	B	RICS notes that contrary to what is noted in ED 23, "reproduction" and "replacement" are not synonymous within the valuation profession. "Reproduction" is taken to be the physical replacement of the property, e.g. a castle used as offices would be replaced as a castle, whereas "replacement" reflects an optimized basis.
30	NHA-UK	C	NHA-UK do not consider depreciated replacement cost an appropriate valuation method in the context of social housing.
31	HMT	B	

**SPECIFIC MATTER FOR COMMENT (i)**

Respondents were asked whether they 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 (paragraphs 45 and 47).

Agree	A	21
Disagree	B	1
No view expressed	C	9
TOTAL		31

	NAME	VIEW	COMMENT
1	AASB	A	AASB staff 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 comments on matter e and f).
2	CPA Australia	A	
3	BIA	C	
4	GASABI	A	GASABI suggest that the appendix also include an example with numerical information illustrating an instance where the impairment loss exceeds the carrying amount of the asset.
5	JICPA	C	
6	Royal NIVRA	C	
7	ICANZ		
8	ICMAP	A	ICMAP would agree to recognizing the impairment with reference to recoverable amount (=fair value) in all cases.
9	ASB-SA	A	
10	FAR	C	
11	NBAA	A	NBAA accepts the proposal, however, more examples need to be developed to support the standard.
12	ASB-UK	C	
13	ACCA	B	ACCA believes that the cause of the impairment should affect the way that an impairment loss is recognized. Thus it will not always be appropriate to recognize the whole of the loss in the statement

			of financial performance for the current period.
14	CIPFA	A	CIPFA notes that if the PSC decides to widen the scope of the standard to include fair value or current value assets, then paragraph 47 will need to be amended in line with IAS 36 to require the impairment loss on a revalued asset to be recognized directly against any revaluation surplus to the extent that the impairment loss does not exceed the revaluation surplus.
15	ICAEW	A	ICAEW agree with this proposal, but note that it does not apply to revalued assets.
16	CGBC	A	
17	NZT	A	
18	CPNP	C	
19	ESV	A	
20	Swiss Finance	A	Swiss Finance believe that a major problem may be defining the level of materiality for different public sector entities.
21	ACAG	A	
22	OAG-NZ	A	
23	AC-UK	A	AC-UK consider this proposal to be consistent with the decision to exclude assets carried at fair value from the scope of the IPSAS. If the scope were extended, as recommended by AC-UK, paragraphs 45 and 47 would need to be revisited to ensure that the proposed accounting treatment is in line with IAS 36.
24	IVSC	C	
25	GH	A	
26	J-BM	C	
27	PWCNZ	A	
28	MOARM	A	
29	RICS	C	
30	NHA-UK	A	
31	HMT	A	HMT believe that impairment losses should be recognized in the revaluation reserve to the extent that they reverse previous upward revaluations.

**SPECIFIC MATTER FOR COMMENT (j)**

Respondents were asked if they 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. Paragraph 53 identifies a minimum set of indicators, but the list is not exhaustive.

Agree	A	19
Disagree	B	2
No view expressed	C	10
TOTAL		31

	NAME	VIEW	COMMENT
1	AASB	A	
2	CPA Australia	A	
3	BIA	C	
4	GASABI	A	
5	JICPA	C	
6	Royal NIVRA	C	
7	ICANZ	A	ICANZ state that, consistent with their response to specific matter for comment (e), a “significant rise in an asset’s market value” should be included as an indicator of reversal of impairment in paragraph 53.
8	ICMAP	C	
9	ASB-SA	A	
10	FAR	C	
11	NBAA	A	
12	ASB-UK	C	
13	ACCA	B	ACCA are of the view that this requirement should be restricted to significant items only.
14	CIPFA	A	
15	ICAEW	A	
16	CGBC	B	CGBC supports Canadian GAAP which does not permit reversal of impairment losses, because use of professional judgment could result in manipulation of the surplus/deficit.
17	NZT	A	

18	CPNP	C	
19	ESV	A	
20	Swiss Finance	A	Swiss Finance believe that the assessment should be in respect of the reporting period rather than at reporting date.
21	ACAG	A	
22	OAG-NZ	A	
23	AC-UK	A	
24	IVSC	C	
25	GH	A	
26	J-BM	C	
27	PWCNZ	A	PWCNZ believes that all the indicators (both of impairment and reversal of impairment) should be presented in a single place.
28	MOARM	A	
29	RICS	C	
30	NHA-UK	A	NHA-UK consider that the minimum set of indicators in paragraph 53 should be extended to include considerations relevant to intangible assets and goodwill. They further 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.
31	HMT	A	

**SPECIFIC MATTER FOR COMMENT (k)**

Respondents were asked if they 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).

Agree	A	19
Disagree	B	2
No view expressed	C	10
TOTAL		31

	NAME	VIEW	COMMENT
1	AASB	A	AASB staff 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.
2	CPA Australia	A	
3	BIA	C	
4	GASABI	A	
5	JICPA	C	
6	Royal NIVRA	C	
7	ICANZ	A	
8	ICMAP	C	
9	ASB-SA	A	
10	FAR	C	
11	NBAA	A	
12	ASB-UK	C	
13	ACCA	B	ACCA do not believe that paragraphs 52 and 53 are clear or easy to understand. ACCA believe that a public sector asset will be impaired if its service potential over the course of its expected useful life is significantly reduced. Similarly reversal of impairment will occur if its service potential is significantly increased.
14	CIPFA	A	
15	ICAEW	A	
16	CGBC	B	
17	NZT	A	

18	CPNP	C	
19	ESV	A	
20	Swiss Finance	A	Swiss Finance believe that the practical application of the concept of recoverable service amount is difficult because the value in use may be difficult to calculate.
21	ACAG	A	
22	OAG-NZ	A	
23	AC-UK	A	
24	IVSC	C	
25	GH	A	
26	J-BM	C	
27	PWCNZ	A	
28	MOARM	A	
29	RICS	C	
30	NHA-UK	A	
31	HMT	A	

**SPECIFIC MATTER FOR COMMENT (I)**

Respondents were asked if they 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).

Agree	A	18
Disagree	B	1
No view expressed	C	12
TOTAL		31

	NAME	VIEW	COMMENT
1	AASB	A	
2	CPA Australia	A	
3	BIA	C	
4	GASABI	C	
5	JICPA	C	
6	Royal NIVRA	C	
7	ICANZ		
8	ICMAP	C	
9	ASB-SA	A	ASB-SA 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 revalued assets is reconsidered.
10	FAR	C	
11	NBAA	A	
12	ASB-UK	C	
13	ACCA	A	
14	CIPFA	A	
15	ICAEW	A	ICAEW note that the proposal in paragraph 62 to recognize the reversal of an impairment loss as revenue may not be possible for all or certain entities, 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 – ICAEW suggest that consideration is given to allowing this treatment.
16	CGBC	A	CGBC state that although Canadian GAAP does not permit reversal of an impairment loss, CGBC would agree that the reinstatement amount should not exceed the original carrying amount net of amortization.
17	NZT	A	
18	CPNP	C	
19	ESV	C	
20	Swiss Finance	A	
21	ACAG	A	
22	OAG-NZ	B	OAG-NZ disagree with the proposal to only recognize 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 recognized at the correct value, all reversals should be recognized. OAG-NZ are of the view that if this requirement is retained, the requirement to assess at each reporting date whether a previously recognized loss no longer exists or has decreased should be changed. If reversals are only recognized when there is a change in the estimates, there is no need for an entity to perform an assessment if there was no change in the estimates used. OAG-NZ are of the view that the requirement should be to assess the <u>estimates</u> used in the prior year and, if necessary, further impair or reverse prior year impairments. OAG-NZ agree with the proposal to subject the resulting carrying amount to the ceiling set in paragraph 61.
23	AC-UK	A	
24	IVSC	C	
25	GH	A	GH states that this is acceptable provided there is clarity as to when a reversal of an impairment occurs and when a revaluation takes place.
26	J-BM	C	
27	PWCNZ	A	
28	MOARM	A	MOARM considers that any excess above the ceiling set in paragraph 61 should be credited to the Asset Revaluation Reserve.
29	RICS	C	

30	NHA-UK	A	
31	HMT	A	HMT believe that if the impairment loss is recognized in the revaluation reserver, the reversal of that loss should also be recognized in the revaluation reserve.

**SPECIFIC MATTER FOR COMMENT (m)**

Respondents were asked if they agree with the proposal to make disclosures as set out in paragraphs 65 and 68 – 70.

Agree	A	20
Disagree	B	0
No view expressed	C	11
<b>TOTAL</b>		<b>31</b>

	NAME	VIEW	COMMENT
1	AASB	A	AASB staff 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 for the disclosure requirements of the latter seems to be clearer.
2	CPA Australia	A	
3	BIA	C	
4	GASABI	A	
5	JICPA	C	
6	Royal NIVRA	C	
7	ICANZ	A	
8	ICMAP	C	
9	ASB-SA	A	ASB-SA suggests additional disclosures may need to be considered if the scope exclusion on revalued assets and heritage assets are reconsidered.
10	FAR	C	
11	NBAA	A	
12	ASB-UK	C	
13	ACCA	A	
14	CIPFA	A	
15	ICAEW	A	
16	CGBC	A	CGBC 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.
17	NZT	A	
18	CPNP	C	

19	ESV	C	
20	Swiss Finance	A	
21	ACAG	A	
22	OAG-NZ	A	
23	AC-UK	A	
24	IVSC	C	
25	GH	A	GH states that the disclosure requirements of 69 (f) and (g) are acceptable if they are satisfied by reference to an accounting policy in the notes to the general purpose financial statements, otherwise they would be onerous.
26	J-BM	C	
27	PWCNZ	A	PWC NZ 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 IPSAS, rather than include them within this proposed standard.
28	MOARM	A	
29	RICS	C	
30	NHA-UK	A	
31	HMT	A	

**ATTACHMENT 2**

**Table of Editorial and Other Comments**

Question/ Paragraph	Submission Number	Name	Comment	Staff Comments
General	9	ASB-SA	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 recognizing and measuring impairment on a cash generating unit and/or corporate assets as defined in IAS 36 should be considered for incorporation in this IPSAS. This would provide guidance on how to assess and recognize impairment in instances where it is not feasible to determine recoverable service amount for individual assets.	Noted.
13	9	ASB-SA	Some definitions included in the proposed IPSAS do not contribute to the understanding of the proposed IPSAS. Suggest that only definitions that are relevant to this particular IPSAS be included.	Noted. Staff will review which definitions to include when marking up the draft IPSAS.
13	9	ASB-SA	Define: "active market" and "amortization".	Agree re "active market" (see memo). Amortization could be covered in a guidance paragraph after the definitions.
13	9	ASB-SA	Amend the definition of "useful life of property, plant and equipment" to cover all assets being addressed by the proposed Standard.	Disagree. The definition was established in IPSAS 17. Would prefer to await the outcome of the IASB's review process re intangibles. Many intangibles have indefinite useful lives.

Question/ Paragraph	Submission Number	Name	Comment	Staff Comments
13	9	ASB-SA	A strict application of the definitions and scope could lead to anomalies. E.g. a computer in a GBE 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.	Noted.
19, 52, 47, 50	9	ASB-SA	Further clarity may be needed on the demarcation between impairment and depreciation for practical application. Para 19 & 52 require an assessment at each reporting date wither there is an indicator of impairment. Para 47 requires immediate recognition of impairment losses. Para 50 requires adjustment of depreciation/amortization charge in future periods to account to allocate the revised carrying amount on a systematic basis over remaining useful life.	Noted.
Editorial	9	ASB-SA	Consistent references should be made to recoverable <b>service</b> amount, where extracted from IAS 16.	Agree.
Editorial	9	ASB-SA	Value-in-use of a non-cash-generating asset is defined as the <u>present value</u> 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 IPSAS. ASB-SA suggest the wording be changed to "current value" or "fair value".	Disagree. The definition is consistent with that in IAS 36 and there is no public sector specific reason for variation.
13	4	GASABI	Definition of "cash generating asset" should be amended to "assets held by public sector entities to generate a commercial rate of return."	Agree, see memo.
20	4	GASABI	Additional indicator: "a significant long term reduction in demand or need for the services provided".	See specific matters for comment (f) and memo.

Question/ Paragraph	Submission Number	Name	Comment	Staff Comments
53 (a)	4	GASABI	Amend to: "significant long term recovery of demand or need for services."	See specific matters for comment (f) and memo.
52	4	GASABI	Amend to: "an impairment recognized earlier no longer exists or may have decreased". The impairment loss is an expense in an earlier period to be recognized as revenue in the current period.	Disagree. This paragraph has been adopted from IAS 36, see Memo item (i)
Objective	4	GASABI	Should briefly note the scope of the standard, i.e. that it applies only to non-cash-generating assets of public sector entities.	Agree.
26 & 57	4	GASABI	Further explanation is needed of why a reworking of depreciation/amortization is needed even if no impairment loss or reversal thereof is recognized for the asset.	Disagree. Staff believe that the current wording, adapted from IAS 36 covers the situation well.
29	4	GASABI	Paragraph should note that para 33 deals with the situation when the asset is traded in an active market, while para 34 provides an alternative where an active market does not exist.	Noted.
37	4	GASABI	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 other accommodation).	Noted.
45 & 58	4	GASABI	The paragraphs should explicitly state that the changed carrying amount for the asset is recognized in the statement of financial position (complementing paragraphs 47 and 62 which explicitly mention the recognition of the expense/revenue in the statement of financial performance).	Disagree. These paragraphs were adapted from equivalent paragraphs in IAS 36, and staff believe that they cover the situation well.
54	4	GASABI	Further explanation of the principle of materiality is needed - along the lines of paragraph 25.	Staff do not believe that it is necessary to repeat the explanation in paragraph 25 in paragraph 54.
50 & 63 & Appendix B	4	GASABI	An example illustrating the recasting of depreciation/amortization in the Appendix B would be useful.	Noted.

Question/ Paragraph	Submission Number	Name	Comment	Staff Comments
73	4	GASABI	The last sentence is not clear to GASABI, could it be reworded with greater clarity?	Noted, paragraph is based on paragraph 121 of IAS 36, however staff will review drafting when developing the IPSAS.
47	6	Royal NIVRA	Should an impairment loss be considered as an ordinary or extraordinary expense?	Staff would prefer not to give an opinion.
20 (b) & (c)	6	Royal NIVRA	These paragraphs refer to changes in the "near future", could the term "near future" be defined?	Staff would prefer to leave the interpretation to professional judgement.
20	6	Royal NIVRA	The distinction between "internal" and "external" indicators of impairment appears artificial, if there is no benefit from making the distinction it should be eliminated.	The same distinction is used in IAS 36.
Appendix B Example 4	14	CIPFA	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 explain why this is not the case. This impairment is temporary and would need to be reversed as soon as the repairs are undertaken, in practice no impairment would be recognized, however the repair cost would be recognized as an expense.	See memo.
Appendix B Example 6	14	CIPFA	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 of a 20 storey building seems overly simplistic. A more appropriate approach would be to ascertain the replacement cost of a 16 storey building.	See memo.

Question/ Paragraph	Submission Number	Name	Comment	Staff Comments
53	14	CIPFA	Para 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 para 54.	Noted.
13	17	NZT	The definitions of "impairment loss of a non-cash- generating asset" and "value in use of a non-cash-generating asset" are inconsistent with later references to "impairment loss" and "value in use". NZT recommend deleting "...of a non-cash-generating asset" from both definitions.	Noted, will ensure that these inconsistencies are cleared up when drafting the final IPSAS.
various	17	NZT	By default goodwill and other intangible assets are included in the scope of ED 23. NZT suggest including examples that are applicable to these assets in the proposed standard and, for consistency, NZT also suggest that all references to depreciation be followed, in brackets, by "amortization". This includes the definitions of "carrying amount", "depreciation" and "impairment". NZT note that IAS 36 is drafted in this way and that IAS 36 includes a footnote to highlight that, although having the same meaning "amortization" is generally used for intangible assets and goodwill instead of "depreciation".	Noted, will investigate for inclusion in next stage of drafting.
13	17	NZT	ED 23 introduces the term "recoverable service amount" which is virtually identical to the definition of "recoverable amount" in IAS 36. For consistency proposes the definition in ED 23 should be amended so as to align with IAS 36.	The PSC decided that this definition should be adopted to recognize that public sector assets frequently have service potential unrelated to the asset's selling price.

Question/ Paragraph	Submission Number	Name	Comment	Staff Comments
13	17	NZT	ED 23 in its definition of "recoverable service amount" refers to "value in use". The ED then provides a definition of "value in use of a non-cash-generating asset". To enhance the linkage between the definitions the existing definition 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."	Noted, will ensure that these inconsistencies are cleared up when drafting the final IPSAS.
13	21	ACAG	Define "value in use" in black letter in a way that specifies its measurement (currently the proposed IPSAS only refers to "present value of the assets remaining service potential") ACAG suggest the definition for "value in use" should be depreciated replacement cost where the asset would be replaced if the entity were deprived of it.	The IASB and the PSC have decided not to include the measurement rules within their definitions of "value in use". Staff do not recommend amending this definition.
13	21	ACAG	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 (e.g. depreciated replacement cost).	Disagree. Fair value as defined in the IPSASs relates to the selling price of an asset.
36	21	ACAG	Replace last sentence of para 36 with: "The present value of the remaining service potential 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)."	Agree, see memo re specific matter for comment (h).
20 (c)	22	OAG-NZ	Amend para to read: "(c) evidence is available of <u>obsolescence</u> or physical damage of an asset;"	Staff believe that the reference to "technological environment" in 20 (a) covers obsolescence.

Question/ Paragraph	Submission Number	Name	Comment	Staff Comments
8	22	OAG-NZ	Paragraph 8 should be expanded to explain the inconsistency between the treatment of property, plant and equipment carried at fair value. If it is cash-generating it is subject to impairment testing under IAS 36, if it is non-cash-generating it is not subject to impairment testing.	This will not be necessary if the PSC accepts the staff proposal to have entities with property, plant and equipment carried at revalued amount apply IAS 36.
13	22	OAG-NZ	Paragraph 13 defines "impairment loss of a non-cash-generating asset" and "value in use of a non-cash-generating asset", however the ED only refers to "impairment loss" and "value in use". OAG-NZ are of the view that the phrase "of an non-cash-generating asset" should be deleted in both definitions.	Disagree, staff believe that it is necessary to make the distinction because entities will be applying IAS 36 to some assets. The defined terms should, however, be used consistently throughout the IPSAS.
13	22	OAG-NZ	The reference to "present value" in the definition of "value in use of a non-cash-generating asset" 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 IPSAS. OAG-NZ are of the view that the word "present" is unnecessary and should be deleted.	Disagree, this terminology is based on similar wording in IAS 36.
48 & 49	22	OAG-NZ	OAG-NZ question 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 OAG-NZ's view only the restoration cost approach might result in a negative recoverable service amount.	Noted.

Question/ Paragraph	Submission Number	Name	Comment	Staff Comments
49	22	OAG-NZ	In respect of the example in paragraph 49 OAG-NZ 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. OAG-NZ 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.	Noted, staff will review the example when drafting the final IPSAS.
40 & 41	22	OAG-NZ	OAG-NZ notes that 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”.	Disagree. In light of the respondents' views on specific matter (h) the paragraphs are illustrating how to calculate depreciated replacement cost.
40 & 41	22	OAG-NZ	OAG-NZ 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).	Noted. Staff will review these provisions when marking up the draft IPSAS.
Appendix B	22	OAG-NZ	OAG-NZ notes that the ED strongly emphasizes physical assets, however, it applies equally to intangible assets. OAG-NZ recommend the inclusion of examples relating to intangible assets.	Noted

Question/ Paragraph	Submission Number	Name	Comment	Staff Comments
References	22	OAG-NZ	For consistency, OAG-NZ recommend that all references to depreciation be followed by "(amortization)", including the definitions of "carrying amount", "depreciation" and "impairment". IAS 36 is drafted in this manner and includes a footnote to explain that the two terms have the same meaning however amortization usually refers to intangible assets and goodwill.	Noted, however staff believe that a single commentary paragraph should be included that explains amortization.
38	22	OAG-NZ	Paragraph 38 does not refer to optimization for technical obsolescence. OAG-NZ suggest the following amendments to para 38 to provide guidance on optimization for obsolescence: "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 <u>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.</u> 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."	Staff will review this suggestion when preparing the final draft IPSAS for the next meeting.

Question/ Paragraph	Submission Number	Name	Comment	Staff Comments
13	24	IVSC	IVSC is of the view that there are two key terms that remain undefined, and that this has the potential to lead to misunderstandings of the provisions of the IPSAS. IVSC believe the following terms should be defined: "service potential" and "service performance".	"Service potential" is explained in IPSAS 1, paragraph 10, and staff do not believe it needs to be defined further. "Service performance" is not defined, but staff believe its meaning is clear from the context.
13	24	IVSC	The definition of "fair value" is different to that in IAS 16, which does not mention liabilities.	The IPSASs have adopted the IAS 32 definition of fair value, which applies to both assets and liabilities.
32 to 34	24	IVSC	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.	Noted.
C8	24	IVSC	IVSC disagree with the statement at the end of the paragraph "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." IVSC state that the concept of measuring what has gone rather than what remains is not market related.	Noted.
38	24	IVSC	The ED uses the terms "replacement cost" and "reproduction cost" interchangeably. The improper use of these terms as synonyms leads to internal conflicts. 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 throughout.	Noted, staff will review the use of these terms when drafting the final IPSAS.

Question/ Paragraph	Submission Number	Name	Comment	Staff Comments
7	25	GH	GH states that the paragraph seems to imply that IPSAS 17 may not always apply. This paragraph should provide further guidance on when ED 23 will be applicable to property, plant and equipment.	See memo re specific matter for comment (a).
15	25	GH	GH states that this paragraph should make it clear that if public sector entities other than GBEs have cash generating assets, those assets are within the scope of IAS 36.	Noted. See memo re specific matter for comment (b). If staff recommendations are accepted, this paragraph will be amended.
20 (b)	25	GH	GH is of the view that paragraph 20(b) could include regulatory issues as a further relevant example of significant long term changes.	The reference to legal environment covers regulatory issues.
20 (f)	25	GH	GH states that para 20(f) refers to changes in "service performance" as an indicator of impairment. GH is of the view that the service performance levels may not change but the period over which the service performance is provided may change significantly. GH suggests adding "or period of service performance" after "service performance".	Noted, however staff believe that the current wording encompasses all aspects of service performance including the expected useful life.
21	25	GH	GH notes that the ED makes no reference to an outcome where upon assessing whether or not impairment has occurred, the value of the asset has actually increased. It is perhaps unlikely, but is conceivable. GH asks what happens in that event?	In the context of this proposed IPSAS, if an assessment of the value of the asset indicated an increase in value, there would be no reported impact as the assets are carried at historic cost less accumulated depreciation/amortization and net impairment losses.
25	25	GH	GH asks if the case where the recoverable service amount is greater than the carrying amount the only time when materiality is important?	IPSASs do not apply to immaterial items, therefore materiality is always a consideration.
39	25	GH	GH disagrees 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.	The paragraph is not intended to be restrictive, it notes one circumstance. Staff will review to determine whether it would be more appropriate to broaden the paragraph.

Question/ Paragraph	Submission Number	Name	Comment	Staff Comments
27 to 43	25	GH	GH believes that these paragraphs could also usefully discuss "reproduction cost" which is reasonably common in the public sector, and may be significantly greater than replacement or restoration.	Noted. IVSC and RICS also note that reproduction cost and restoration cost are different. Reproduction cost may be important in terms of heritage items.
42	25	GH	GH states that this paragraph makes fairly bold statements about the approaches to valuing assets, he states that it would be useful if the reasons behind these statements were added.	Noted, will review in preparing final IPSAS.
45	25	GH	GH asks if the first sentence should contain the word "material".	It is not necessary as IPSASs do not apply to immaterial items.
47	25	GH	GH suggests that the ED state that impairment losses are expenses additional to normal depreciation expenses.	Staff believe that paragraph 63 makes this clear.
61	25	GH	GH suggests adding commentary which makes a clear distinction between reversal of impairment and revaluation of an asset.	Noted, staff believe that such commentary would add value to the IPSAS, however, IAS 36 does not include such commentary, staff are unaware of a public sector specific reason for departing from the IAS 36 text.
69 (f) & (g)	25	GH	GH states that if these cannot be satisfied by referring to an existing accounting policy in the notes to the general purpose financial statements, then these requirements seem excessive.	Staff believe that these items could be disclosed in the accounting policies.
72	25	GH	GH suggest that a transitional provision of two years be included to enable entities to take that time to examine all assets.	As noted in Study 14 <i>Transition to the Accrual Basis of Accounting</i> the PSC anticipates that entities will take several periods to undertake the transition, so staff do not believe a transitional provision is necessary in this IPSAS. IPSAS 17 contains a five year transitional provision which would be available to entities in respect of property, plant and equipment.

Question/ Paragraph	Submission Number	Name	Comment	Staff Comments
Appendix B Examples 1 & 2	25	GH	GH suggests that the preliminary comment to each of these examples should explain the rationale for selecting the depreciated replacement cost approach and not the restoration cost or service units approaches.	Noted.
Appendix B Example 3	25	GH	GH states that the example is unrealistic. In practice such a dramatic and rapid population shift is unlikely to occur. A better example should be used.	Regrettably, such rapid population shifts do occur when manufacturing or mining facilities close unexpectedly.
Appendix B Example 4	25	GH	GH states that in this example, the value is decreased by 40,000, however the asset is likely to be insured. Also the asset would likely be quickly repaired and be operable again in a short period. GH fails 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.	Noted, see memo.
Appendix B Example 5	25	GH	GH questions the reality of the example. GH states that it is not realistic to assume that the restoration costs are fully capitalizable. If the asset is restored to its previous operating capacity, it is incorrect to assume that the restoration costs can be capitalized as they add no additional productive capacity to the asset. In any event the asset is likely to be insured in which case there is no cost to the owner.	Noted. To be fully capitalizable it must be probable that the future economic benefits or service potential flowing to the entity as a result of the subsequent expenditure on property, plant and equipment in excess of the most recently assessed standard of performance of the existing asset, will equal or exceed the amount of the expenditure (IPSAS 17, para 33). Staff note GH's concern but do not propose any changes.
Appendix B Example 6	25	GH	GH asks if the outcomes of this example change if the top four floors provided more than 20% of the rental revenue stream for the whole building . Are revenue streams relevant in this example.	If the building were let, as suggested by GH, it would be an investment property, not within the scope of this IPSAS. If the top floors provided proportionately more economic benefits or service potential, the outcomes would be different.

Question/ Paragraph	Submission Number	Name	Comment	Staff Comments
Appendix B Example 7	25	GH	GH states that this example does not address the question of what the outcome would be if the entity decided to incur the cost of restoring the machine to its previously estimated output. The asset owner is likely to consider remedies against the vendor of the machine, if a financial settlement were reached, what impact would that have?	Noted, the examples are intended to illustrate a single point rather than the complexities of real life. An claim against a vendor may be possible, and may need to be disclosed under the provisions of IPSAS 19.
Appendix B Examples 1 - 3	29	RICS	In the first three examples of depreciated replacement cost, 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. RICS would argue that to derive a depreciated replacement cost, a simple factor of years expended against target life is not the sole criteria and 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 as this should be incorporated into the valuation process.	Noted, staff have noted in the memo RICS' concerns regarding the depreciated replacement cost approach.
Appendix B Example 1	29	RICS	RICS state that there are other possibilities with the computer. The replacement computer may have a target life of more or less than 7 years. It may also be that the existing, over-specified mainframe will now have a longer life, but only at its reduced carrying amount. RICS suggest it would be useful to deal with these issues in the example.	Noted, the examples are intended to illustrate a single point rather than the complexities of real life.
Appendix B Example 2	29	RICS	RICS note that the replacement cost of a storage facility is 4.2 million, 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.	Noted, staff believe that the example could be modified slightly to: "The current replacement cost for a warehouse with the same storage capacity of the school is 4.2 million currency units."

Question/ Paragraph	Submission Number	Name	Comment	Staff Comments
Appendix B Example 3	29	RICS	RICS ask why, if the school is impaired by the loss of 2 of 3 floors, is the carrying amount not simply reduced by 2/3rds? They state that 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 like with like. They argue that the justification for such an approach needs to be made more explicitly in the main ED.	See memo. Staff believe that this approach is inconsistent with the PSC's approach to recognizing impairments.
Appendix B Examples 4 & 5	29	RICS	RICS argue that using the current day replacement cost adjusted for accumulated depreciation then deducting restoration cost would overstate the value in use of the asset in its damaged state. In example 4, if the bus were repaired its new carrying amount would be 125,000 (85,000 + 40,000 in repairs) yet it is in no better condition than the undamaged bus which was carried at 100,000. In example 5, the post-restoration carrying amount would be 52.5m as opposed to 26.25m prior to the damage.	IPSAS 17 would not permit the capitalization of the cost of repairs or restoration unless it is probable that future economic benefits or service potential over the total life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the entity. In example 4, the repair costs would not be capitalized, however in example 5 it is assumed that they are capitalized.
Appendix B Examples 6 & 7	29	RICS	RICS argue that reducing the carrying amount in both examples by the proportion represented by the lost capacity would be more faithful to the historical cost model, and less likely to overstate the value in use than the depreciated replacement cost.	Staff do not believe that this approach is consistent with the PSC's principles for recognizing impairment.
42 (a) and (b)	7	ICANZ	ICANZ state that these two paragraphs appear to be virtually identical. If they are to be retained ICANZ recommend that they be combined.	Noted, staff will review these paragraphs in relation to any amendments made as a result of PSC decisions concerning specific item for comment (h). See memo.

Question/ Paragraph	Submission Number	Name	Comment	Staff Comments
37	7	ICANZ	ICANZ believe that depreciated replacement cost should be defined as follows: "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 cost of improvements less allowances for physical deterioration, and optimization 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 optimization for obsolescence and relevant surplus capacity."	Noted. Staff do not think that depreciated replacement cost needs to be defined in black letter. Staff will consider including this definition in grey letter if the PSC approve changes re specific matter for comment (h).
13	7	ICANZ	Definition of "recoverable service amount" should be replaced with " <u>recoverable amount</u> is the higher of an asset's net selling price and its value in use."	Disagree. Staff believe that it is necessary to distinguish terms in this ED from terms in IAS 36, which entities will use for some assets.
13	7	ICANZ	Definition of "value in use of non-cash generating asset" should be replaced with " <u>Value in use</u> , in respect of non-cash generating assets, is the present value of the asset's remaining service potential."	Disagree. Staff believe that it is necessary to distinguish terms in this ED from terms in IAS 36, which entities will use for some assets.
13	7	ICANZ	If ICANZ's view on depreciated replacement cost is accepted, the following definition could be added "Present value of an asset's remaining service potential is equivalent to the asset's depreciated replacement cost."	Noted. Inclusion will depend on drafting changes made in consideration of any decision of the PSC regarding specific matter for comment (h).
13	7	ICANZ	ICANZ state that it would be possible to avoid defining "value in use" and "present value of an asset's 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."	Noted, but this would be a significant departure from the approach adopted in IAS 36, for which there does not appear to be a public sector specific reason.

## ***GASB Issues Statement on Capital Asset Impairment and Insurance Recoveries***

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In November, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which requires governments to report the effects of capital asset impairments in their financial statements when they occur. The Statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of the Statement are effective for fiscal periods beginning after December 15, 2004. Earlier application is encouraged.

Reflecting on the impact of the Statement, GASB project manager Roberta E. Reese stated, “Due to its long-lived nature, a capital asset’s service utility may be diminished during its useful life by unexpected events or changes in circumstances. This Statement will ensure that government financial statements report this loss of service utility when it occurs, rather than over the remaining useful life of the capital asset.”

### ***Reporting Capital Asset Impairments***

The Statement requires governments to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment has occurred. Events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

Impaired capital assets that no longer will be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service utility of the capital asset. Measurement methods include the following:

- ***Restoration cost approach.*** This approach uses the estimated cost to restore a capital asset to identify the portion of the historical cost of the capital asset that should be written off and generally is used to measure impairment of capital assets with physical damage.
- ***Service units approach.*** This approach compares the service units provided by the capital asset before and after the impairment event or change in circumstance and generally is used to measure impairment of capital assets that are affected by enactment or approval of laws or regulations or other changes in environmental factors or for those that are subject to technological changes or obsolescence.
- ***Deflated depreciated replacement cost.*** This approach quantifies the cost of the service currently being provided by the capital asset and converts that cost to historical cost. Capital assets that are subject to a change in manner or duration of use generally should be determined using either this approach or a service units approach, as described above.

Impairment losses should be reported in accordance with the guidance in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*.

### ***Accounting for Insurance Recoveries***

Insurance recoveries associated with events or changes in circumstances resulting in impairment of capital assets reported in the government-wide and proprietary fund statements should be reported net of the impairment loss when the recovery and loss occur in the same year. Restoration or replacement of the capital asset accomplished through use of the insurance recovery should be reported as a separate transaction. Other insurance recoveries should be reported in a similar manner. All insurance recoveries should be disclosed if not apparent from the face of the financial statements.

### ***Additional Disclosure Requirements***

The Statement includes several disclosure requirements that are designed to assist users of financial statements in understanding the nature and impact of impairment of capital assets. Disclosures are required for impairment losses and insurance recoveries that are not apparent

from the information reported on the face of the financial statements and for impaired capital assets that are idle.

***How to Obtain a Copy of the Statement***

Copies of Statement 42 (product code GS42) may be purchased from the GASB's Order Department at (800) 748-0659 or may be ordered online at [www.gasb.org](http://www.gasb.org).