



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor
New York, New York 10017
Internet: <http://www.ifac.org>

Tel: (212) 286-9344
Fax: (212) 286-9570

**Agenda Item
5**

DATE: 7 June 2007
MEMO TO: Members of the IPSASB
FROM: John Stanford
SUBJECT: Analysis of Submissions on ED 30: “Impairment of Cash-Generating Assets”

SESSION OBJECTIVE

To review responses to ED 30 “Impairment of Cash-Generating Assets” and **to provide directions** to Staff on key issues so that the ED can be amended and a final IPSAS brought to the November meeting in Beijing for approval.

ACTION REQUIRED

The Committee is asked to:

- **Note** the submissions on ED 30, “Impairment of Cash-Generating Assets” and the Staff summary and analysis of those submissions;
- **Review and agree** the Staff proposals in response to issues raised by respondents; and
- **Provide directions** on certain other issues raised in submissions.

AGENDA MATERIAL

5.1 Summary Analysis of Submissions: Specific Matters for Comment

5.2 Summary of Submissions: Other Comments

5.3 Additional Submissions Received

Second Distribution (if necessary)

5.4 Submissions

Posted previously to website.

5.5 ED 30, “Impairment of Cash-generating Assets”

Posted previously to website

BACKGROUND

The IPSASB issued ED 30, “Impairment of Cash-generating Assets” in October 2006. ED 30 was drawn primarily from IAS 36, “Impairment of Cash-generating Assets”, but contained a number of differences for public sector specific reasons. The ED was developed by a sub-committee of the Canadian Technical Advisor and the current Israeli, South African and United States members in conjunction with Staff. Comments on ED 30 were requested by 28 February 2007. As at 29 May 2007 22 submissions had been received. If additional responses are received they will be made available to members before or at the Montreal meeting.

Summaries of submissions are included at Agenda Items 6.1 and 6.2. Agenda Item 6.1 summarizes the response to the Specific Matters for Comment (SMC) in the ED, whilst Item 6.2 summarizes Other Comments raised by respondents. This memorandum analyzes respondents’

comments on the SMCs in the ED and gives the Staff view of the action, if any, that should be taken in response to those comments in finalizing an IPSAS. It also considers some of the other matters raised by respondents. As with all summaries and analyses, judgment has been necessary in clarifying responses and drawing out major points made by respondents. The summary should therefore be read in conjunction with the submissions themselves. A list of respondents is given at Appendix A, at the end of this memorandum.

General Observations and Themes

Geographically the response was dominated by Europe with 13 of the 22 submissions. There were 3 responses from Canada and USA, 3 from Australia and New Zealand, 2 from Africa and 1 from Asia.

In terms of functional nature the response was:

- 10 Member Bodies (Responses 1-10)
- 3 Regulators (Responses 11-13)
- 4 Government Organizations ((Responses 14-17)
- 1 Audit Body (Response 18)
- 4 Others, including a regional member body (Responses 19-22)

There was majority support of a full or general nature for ED 30 (11 respondents (nos. 1, 2, 4, 5, 11, 12, 13, 15, 16, 17 and 22)). A further 4 respondents did not directly express an opinion on whether they supported the ED overall, but did not indicate any opposition (nos. 9, 10, 19, and 20). A significant minority opposed, or expressed reservations about, the development of a separate IPSAS based on the ED (nos. 3, 6, 7, 8, 14 and 18). These respondents favored dealing with the impairment of cash-generating assets through an amended and expanded IPSAS 21. Respondent 21 opposed the development of a Standard based on the ED and supported reliance on IAS 36.

Major Issue Raised by Respondents

ED 30 identified 6 SMCs on which the IPSASB indicated that it would particularly welcome comments. In addition, as noted, respondents provided a number of other comments.

While Staff is seeking guidance and directions on all SMCs, the main issue identified that requires a more significant discussion by the IPSASB at this meeting is the exclusion from the scope of the ED of assets carried at revalued amounts under the revaluation model in IPSAS 17, “Property, Plant and Equipment”. Examination of this issue also necessitates a reconsideration of the scope exclusion for assets carried at revalued amounts under the revaluation model in IPSAS 17 in IPSAS 21, “Impairment of Non-cash-generating Assets”.

Scope exclusion-assets carried at revalued amounts-SMC 1

Assets that are carried at revalued amounts under the revaluation model in IPSAS 17, “Property, Plant and Equipment” should be excluded from the scope of this ED (see paragraphs 2 and 10 of the ED and paragraphs BC3-4 of the Basis for Conclusions). If you do

not agree that assets carried at revalued amounts under the revaluation model in IPSAS 17 should be excluded from the scope please give your reasons.

Consistent with IPSAS 21, ED 30 excluded assets carried at revalued amounts under the revaluation model in IPSAS 17 from its scope. Paragraph 10 explains that this was because, under the revaluation model in IPSAS 17, assets will be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value at the reporting date and any impairment will be taken into account in the valuation. Paragraph BC9 in the Basis for Conclusions states the view that it is onerous to impose a further requirement for impairment testing after a revaluation has taken place. 19 of the 22 respondents commented on this SMC.

Well over half the respondents (13) disagreed with the proposal. A number acknowledged that they were repeating previous comments made when responding to ED 23, “Impairment of Cash-generating Assets”, which preceded the publication of IPSAS 21. The main reasons given for opposing the proposal were that:

- the scope exclusion is an unjustified departure from IAS 36:
- there is a risk that impairments of assets on the revaluation model will not be detected if the proposed scope exclusion is retained; and
- there may be cases where disposal costs are significant so that recoverable amount will differ materially from the revalued carrying amount of the asset.

Staff View

In the light of the overall response Staff is of the view that the exclusion of assets carried at revalued amounts under the revaluation model in IPSAS 17, “Property, Plant and Equipment” must be reconsidered.

Staff considers that in responding to this proposal some respondents may not have sufficiently acknowledged the requirement in IPSAS 17 that, for assets carried on the revaluation model, revaluations are carried out with sufficient regularity so that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Nevertheless it is very feasible that where an external or internal indication of impairment is present an analysis involving the estimation of future cash flows may determine a recoverable amount that differs materially from an asset’s fair value less costs to sell. As identified by Respondents 5 and 15 this particularly applies to specialized cash-generating assets measured on a depreciated replacement cost basis. Staff therefore considers that the scope exclusion for cash-generating property, plant and equipment that is measured at revalued amounts under the revaluation model in IPSAS 17 at paragraph 2 (e) should be deleted, thereby bringing such assets within the scope of the proposed Standard.

The response also necessitates the reconsideration of the scope of IPSAS 21, “Impairment of Non-cash-generating Assets”. IPSAS 21 uses the term “recoverable service amount” rather than “recoverable amount”. Staff continues to be of the view that, because value in use in IPSAS 21 is based on service potential rather than the present value of expected cash flows, value in use is a measure of fair value. Therefore, as stated in paragraph C16 of the Basis for Conclusions for IPSAS 21, the only difference between an asset’s carrying amount and its fair value less costs to

sell will be the disposal costs. Staff notes the comments of Respondents 5, 8 and 20 that disposal costs may be significant. However, Staff is still of the view that the position stated in paragraph C16 of the Basis for Conclusions of IPSAS 21 is robust and that there is not sufficient evidence that disposal costs are likely to be material to justify proposing an amendment to IPSAS 21.

Staff Recommendation: **Modify** the Scope of ED 30 so that it includes assets carried at revalued amounts under the revaluation model in IPSAS 17, “Property, Plant and Equipment”. Do not modify the scope of IPSAS 21, “Impairment of Non-cash-generating Assets”.

REMAINING SPECIFIC MATTERS FOR COMMENT

The following analysis relates to the remaining 5 Specific Matters for Comment.

Specific Matter for Comment 2

There should not be detailed requirements or guidance relating to goodwill. Goodwill is within the scope of the ED, but the ED does not include the detailed requirements and guidance contained in IAS 36. If you think that there should be detailed requirements and guidance please give your reasons and suggest what those requirements and guidance should be.

21 respondents expressed a view on this SMC. 14 supported, or broadly agreed with, the proposal that there should not be detailed requirements for goodwill. Respondent 2 proposed that goodwill should be taken out of the scope of the ED altogether and addressed separately when the IPSASB’s agenda allows. Respondent 13 agreed with the reasons for excluding the requirements in IAS 36 in relation to impairment of goodwill, as set out in paragraph BC9 of the Basis for Conclusions. However, this respondent also considered that this reasoning militated to the exclusion of goodwill from the scope of the proposed Standard.

Respondent 6 agreed that the development of detailed additional guidance on goodwill is unnecessary, but highlighted that paragraph 94, which requires an impairment loss in a cash-generating unit (CGU) to be allocated pro-rata to the assets in the CGU, would include a pro-rata allocation of goodwill, unless , an explicit scope-out of goodwill is introduced. Respondent 10 also highlighted deficiencies in the treatment of goodwill in the testing for impairment of CGUs. Respondent 11 agreed that goodwill should not be excluded from the scope of the Standard, and that no specific guidance should be provided. However, this respondent proposed that the Standard include a reference to where guidance can be found and advocated a similar approach for intangible assets. Like Respondent 6 this same respondent also raised the issue of the allocation of goodwill in the assessment of impairment losses of cash-generating units.

A number of the respondents who disagreed with the proposed approach acknowledged that goodwill is not common or significant in the public sector, but that it could arise and should be addressed (e.g. Respondents 15, 16 and 18). Others who did not support the proposed approach felt that, if goodwill is within the scope guidance should be included (e.g. Respondents 4 and 7).

Staff View

Staff considers that it would be inappropriate to introduce detailed requirements for goodwill prior to the exploration of this topic in the recently initiated entity combinations project. However, the submissions suggest that the current approach in the ED to goodwill is inadequate

and that the allocation of goodwill to CGUs for the assessment of impairment has not been addressed. The options for dealing with goodwill appear to be:

- removing goodwill from the scope of the proposed Standard; or
- keeping goodwill within the scope and referring users to relevant international or national Standards in accordance with current conventions for dealing with topics where an IPSAS has not been issued.

Neither of these options is particularly attractive. On balance Staff favors the second option, which at least highlights that situations may exist where goodwill may be relevant for impairment assessments. Staff therefore proposes that users are referred to the relevant international or national accounting standard for dealing with the impairment of goodwill in the Definition section and that a black letter requirement based on paragraph 80 of IAS 36 is added dealing with the allocation of goodwill to cash-generating units. This new paragraph will state that, for the purpose of impairment testing, goodwill acquired in an entity combination shall be allocated to cash-generating units expected to benefit from the combination. A further commentary paragraph will refer users to the relevant international or national accounting standard dealing with the allocation of goodwill to cash-generating units for the purpose of impairment testing. It will also be necessary to address this issue in the Basis for Conclusions.

Staff Recommendation: Retain the inclusion of goodwill within the Scope, but insert references to the relevant international or national accounting standard for dealing with the impairment of goodwill and the allocation of goodwill to cash-generating units for the purpose of impairment testing.

Specific Matter for Comment 3

The definition of cash-generating assets in paragraph 14, as assets “held with the primary objective of generating a commercial return” is appropriate. If you do not consider that the definition is appropriate what definition do you propose?

20 respondents expressed a view on this SMC. 13 supported the proposed definition. Of these, Respondent 6 felt that the proposed definition did not appear to be applied consistently throughout the ED and gave as an example the treatment of the MRI Scanner in Example 4 of the Implementation Guidance.

Turning to those who disagreed with the definition, Respondent 14 found the definition too vague and expressed fears that it could include assets involved in subsidized operations. Conversely, Respondent 18 found the definition too rigid. Respondent 15 cited the inconsistency of the definition with the definition of a cash-generating unit. A cash generating unit is defined as ‘the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of the cash flows from other assets or groups of assets’.

Respondent 15 did not support the term “commercial return” and Respondent 19 proposed that the term be defined. Respondent 16 raised the issue of assets deployed in a monopoly market place; in such circumstances even where a full cost pricing model is used the asset could not be seen to be operating in a commercial market.

Respondent 9 supported the proposed definition but proposed that the definition of a cash-generating asset in IPSAS 21 should be amended to ensure consistency, so that it incorporates the term “primary objective” (see Other Comments at Agenda Item 5.2).

Staff View

Staff considers that the definition is robust and should be retained. Staff does not think that the example of the MRI Scanner in the Implementation Guidance is in conflict with the definition. The MRI Scanner is an illustration of a non-cash-generating asset that contributes to a cash-generating unit.

Staff does not think that fears that the definition will embrace assets used in subsidized operations are well grounded, as such assets will not meet the condition that they are held with the primary objective of meeting a commercial return. A commercial return is not defined in black letter in IPSAS 21 and Staff does not think that a definition is necessary. Staff acknowledges the issue of assets operated in monopoly markets, but considers that the commentary in paragraphs 16-21 will be helpful in informing the judgment whether such assets are held primarily to make a commercial return.

Staff agrees with the comments of Respondent 15 that there is tension between the definition of a cash-generating asset and a cash-generating unit and proposes to amend the definition of a cash-generating unit so that it includes the phrase “held with the primary objective of generating a commercial return”. This will require a consequential amendment to IPSAS 21. Staff also agrees with Respondent 9 that there should be a consequential amendment to IPSAS 21 to ensure that the definitions of a cash-generating asset in both pronouncements are consistent.

Staff Recommendation: **Retain** the definition of cash-generating assets in the ED. **Insert** a consequential amendment to IPSAS 21 ensuring consistency of the definition in that IPSAS with the definition in ED 30. **Modify** the definition of a cash-generating unit, so that it includes the phrase “held with the primary objective of generating a commercial rate of return”.

Specific Matter for Comment 4

The guidance on identifying cash-generating assets in paragraphs 16-21 is appropriate and clear. If you do not think that it is appropriate and clear please indicate how it should be modified.

Paragraphs 16-21 of ED 30 provide guidance on the definition of a cash-generating asset. Paragraph 21 concedes that there will be occasions where “it may not be clear whether the primary objective of holding an asset is to generate a commercial return” and therefore whether to apply ED 30 or IPSAS 21. An entity therefore develops criteria in order to judge whether to apply ED 30 or IPSAS 21 and there is a requirement at paragraph 116 to disclose those criteria. Ultimately the presumption is that, given the overall objectives of most public sector entities other than GBEs, assets are non-cash-generating and that IPSAS 21 will apply.

19 respondents expressed a view on this SMC. 15 supported the guidance in paragraphs 16-21. Some of these respondents suggested editorial improvements or indicated that they thought that there were tensions with the guidance elsewhere in the ED. Respondent 2 found the guidance clear except when an asset that is held with the primary objective of generating a commercial

return has not done so for more than one period and proposed a cross-reference to paragraphs 114-115, which deal with redesignation. Respondent 13 agreed with the commentary, but highlighted that the penultimate sentence of paragraph 20 focuses on the outcome of using an asset rather than the objective. Respondent 11 appeared to broadly support the guidance, but proposed a reordering of the paragraphs and the introduction of a series of sequential indicators to inform the decision process starting with a rebuttable presumption that assets are non-cash-generating. Respondent 15 also broadly agreed with the guidance, but had already indicated that it did not support the definition. Similarly, Respondent 21 found the guidance clear, but did not support the definition.

Of those not supporting the guidance Respondent 6 did not believe that the guidance is sufficiently clear. This respondent proposed that it should be explicit that a ‘commercial return’ means that use of the asset is profit-orientated - assets that are intended to break even or recover certain costs are not cash-generating for the purposes of the Standard. Respondent 18 considered that more precise guidance is necessary in order to avoid circumstances where similar entities apply different approaches to measurement. Consistent with its response to SMC 3, Respondent 14 strongly opposed the approach, which it found too theoretical and impractical.

Staff View

Overall, Staff believes that, in the light of the submissions, the guidance on identifying cash-generating assets is broadly robust. Staff also notes that 2 respondents who opposed the definition of cash-generating assets found the guidance clear.

Paragraph 16 of the ED states that “cash-generating assets are those that are held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.” Staff considers that this deals adequately with Respondent 6’s reservations.

Staff agrees with Respondent 13’s comments that paragraph 15’s focus on the outcomes of holding the asset are not consistent with the definition’s key principle of the objective of holding the asset. Staff therefore proposes to amend paragraph 15. Staff also agrees with the proposal that there should be a cross-reference to the section on redesignation. Staff acknowledges that the introduction of a series of sequential indicators might be useful but, on balance, this would make the commentary over-prescriptive. In addition, starting with a presumption that assets are non-cash-generating may prejudice the evaluation that should be undertaken by preparers.

Staff Recommendation: Retain the commentary in paragraphs 16-21 subject to the changes indicated to paragraph 20 and the insertion of a cross-reference to the paragraphs on redesignation.

Specific Matter for Comment 5

If a non-cash-generating asset contributes to a cash-generating unit (CGU):

- a. It should firstly be assessed for impairment under IPSAS 21; and*
- b. In accordance with paragraph 96, a proportion of the carrying amount of a non-cash-generating asset following the application of any impairment loss calculated under IPSAS 21 should be allocated to the carrying amount of any CGU to which it contributes.*

If you do not think that this approach is appropriate please indicate how non-cash-generating assets that contribute to CGUs should be treated.

Paragraph 96 provides requirements for the treatment of non-cash-generating assets that contribute to cash-generating units. 18 respondents expressed a view on this SMC. 13 supported the proposed treatment. Respondent 2 proposed amendments to paragraphs 94 and 95 clarifying that impairment losses are allocated to reduce the carrying amount of cash-generating assets rather than all assets in the CGU.

Of those not supporting the approach Respondent 11 highlighted the differences between the measurement of recoverable service amount in IPSAS 21 and recoverable amount in ED 30. This respondent also disagreed with the proposal that none of the impairment loss of the CGU should be allocated to the non-cash-generating asset on the grounds that this would lead to the cash-generating assets in the CGU bearing a disproportionate share of that impairment loss. This respondent proposed that a proportion of the impairment loss should be allocated to the cash-generating portion of the non-cash-generating asset. Respondent 18 expressed reservations about the extent to which the recoverable amount of an individual asset that is part of a CGU can be reasonably determined when the fair value of the CGU may be dependent upon the interdependence of a number of individual assets.

Staff View

Staff acknowledges the views that the measurement of the impairment loss of the non-cash-generating asset may be on a different measurement basis to the cash-generating assets. However, Staff does not think that this invalidates the approach proposed in the ED.

In developing the ED the subcommittee considered and rejected componentizing the cash-generating and non-cash-generating parts of assets on the grounds that this is onerous. Staff does not think that it is appropriate to further impair a non-cash-generating asset that is part of a CGU after it has been assessed for impairment under IPSAS 21 as this would potentially lead to an asset being impaired twice in the same reporting period. Respondent 18's reservations relate to an approach adopted in IAS 36 and are not public sector specific.

Staff Recommendation: Retain the proposed treatment of non-cash-generating assets contributing to cash-generating units subject to drafting clarifications to paragraphs 94 and 95.

Specific Matter for Comment 6

There is no need to include a definition of, and requirements and guidance related to, “corporate assets”. IAS 36 defines “corporate assets” as assets other than goodwill that contribute to more than one CGU (see paragraph BC11 of the Basis for Conclusions). If you disagree with this approach please give your reasons and outline what the requirements should be.

In a departure from IAS 36, the ED neither defined “corporate assets” nor included requirements for their treatment. The ED included requirements and guidance on the treatment of non-cash-generating assets contributing to cash-generating units (see above SMC 5). This approach was adopted because it was considered unlikely that assets controlled by public sector entities other than GBEs would contribute to more than one cash-generating unit **without** contributing to non-

cash generating activities. 18 respondents expressed a view on this SMC. 14 supported the approach, either fully or with reservations. 4 opposed the approach.

Respondent 13 considered that “a public sector entity other than a GBE may have more than one cash-generating unit with ‘shared entity infrastructure’ composed entirely of cash-generating units.” Respondent 13 further expressed the views that the reason given in paragraph BC11 of the Basis for Conclusions for omitting requirements and guidance relating to corporate assets is “tantamount to saying that public sector entities do not hold cash-generating assets” and that “it is illogical to include requirements for cash-generating units but not corporate assets.”

Respondent 18 objected to the proposed approach as users would have to refer to IAS 36 for guidance on the subject of corporate assets and Respondent 4 also favored dealing with corporate assets. Respondent 21 disagreed on the basis that this was an unnecessary departure from IAS 36. Respondent 11 did not express a firm opinion on this SMC, but stated a view that corporate assets in the public sector are “non-cash-generating assets that contribute to both CGUs and non-CGUs” and considered that the Basis for Conclusions should provide clarification.

Staff View

Staff accepts that it may be commonplace for non-cash-generating assets to contribute to more than one cash-generating unit. However, Staff remains of the view that it is very unlikely that such assets will contribute to more than one cash-generating unit **but not to** non-cash-generating activities. Staff therefore is not persuaded that there is a need to define corporate assets and provide guidance on them and considers that paragraph 96 covers off non-cash generating assets that contribute to cash-generating units, including assets that are defined as “corporate assets” in IAS 36.

Staff Recommendation: **Confirm** that there is no need to include a definition of, or requirements and guidance relating to, corporate assets.

Other issues

Agenda Item 5.2 contains a detailed summary of additional issues identified in submissions and provides the Staff response. This memorandum does not duplicate that analysis. It considers areas where Staff seeks directions in amending the ED as it is developed into a final Standard. Members are requested to review Agenda Item 5.2 and to raise any issues that are not directly addressed in this memorandum where they do not support the proposed Staff action. The following issues are discussed below:

- i) Scope
- ii) Treatment of intangible assets
- iii) Impairment losses leading to recognition of a liability
- iv) Redesignation as an impairment trigger
- v) Criteria for inclusion of Examples

i) Scope

Respondent 11 highlighted that at paragraphs 2(h) and 2(i) ED 30 specifically scopes out:

- biological assets related to agricultural activity that are measured at fair value less estimated point-of-sale costs and
- non-current assets (or disposal groups) held for sale in accordance with the relevant international or national accounting standard dealing with non-current assets held for sale and discontinued operations.

Neither of these items are scoped out of IPSAS 21. Respondent 11 proposed that specific reference be made to biological assets in IPSAS 21. As the IPSASB has not made consequential amendments to any IPSAS as a result of IFRS 5, Respondent 11 considered it inappropriate to include an implied reference to it in ED 30.

Staff View

Staff agrees that a consequential amendment to IPSAS 21 should be made scoping out biological assets related to agricultural activity that are measured at fair value less estimated point of sale costs. The alternative option would be to delete the scope exclusion in paragraph 2(h) from ED 30. The views of members are sought.

Staff accepts that no consequential amendments to current IPSASs have been made as a result of the introduction of IFRS 5. Staff agrees that this scope exclusion should be deleted and the issue of the impairment of assets and disposal groups classified as “held for sale” under IFRS 5 considered, as and when IFRS 5 is addressed by the IPSASB. This means that until IPSASB issues a Standard based on IFRS 5 assets classified as “held for sale” in IFRS 5 will be within the scope of ED 30. Members are asked to confirm this approach

Staff Recommendation: Confirm that a consequential amendment to IPSAS 21 should be made scoping out biological assets related to agricultural activity that are measured at fair value less estimated point of sale costs. Confirm that the scope exclusion for non-current assets (or disposal groups) held for sale should be deleted from ED 30.

ii) Treatment of intangible assets

Respondent 11 contrasted the treatment of intangible assets in ED 30 with the more limited treatment in IPSAS 21. This submission noted that no guidance is provided in IPSAS 21 on the impairment of intangible assets (indefinite or otherwise) whereas extensive guidance, derived from IAS 36, is provided for indefinite intangible assets in ED 30.

Respondent 11 was unclear why the ED includes extensive guidance on intangible assets while IPSAS 21 does not include any guidance. Respondent 11 proposed that either:

- the same guidance on intangible assets be provided in IPSAS 21; or
- that the guidance in ED 30 is deleted, and both IPSAS 21 and ED 30 refer to IAS 36 for guidance on impairing intangible assets.

Staff View

Staff acknowledges this discrepancy between IPSAS 21 and ED 30. In practice Staff thinks it unlikely that non-cash-generating intangible assets will be at all common in the public sector. Staff therefore suggests that this issue is noted for a future revision of IPSAS 21.

Staff Recommendation: Retain the requirements and guidance relating to the impairment of intangible assets in ED 30. Note the need to develop guidance for non-cash-generating intangible assets in IPSAS 21.

iii) Impairment losses leading to recognition of a liability

Submission 2 highlighted that black letter paragraphs 77 and 99 of ED 30 require the recognition of a liability for impairment losses where required by another Standard. This submission proposed that these paragraphs should be deleted unless examples of such requirements could be identified and referenced.

Staff View

Paragraphs 77 and 99 of ED 30 mirror paragraphs 62 and 108 of IAS 36. In explanatory commentary, paragraph 64 of IAS 36 refers to IAS 12, “Income Taxes”. IPSASB has not issued a Standard based on IAS 12 and has no intention to develop one. Staff does not think that the example given in IAS 36 is relevant in the public sector and is not aware of other requirements for impairment losses to be treated as liabilities in the current suite of IPSASs. Staff therefore agrees that paragraphs 77 and 99 are potentially confusing and should be deleted in developing an IPSAS based on ED 30.

Staff Recommendation: Delete paragraphs 77 and 99.

iv) Redesignation as an Impairment Trigger

Respondent 6 questioned the statement in paragraph 114 that a redesignation between cash-generating and non-cash-generating assets and vice-versa, of itself, does not necessarily trigger an impairment test. This submission considered that if an asset has been redesignated as cash-generating, it will be important to ensure that its carrying amount is not in excess of its recoverable amount taking into account its new usage. The submission advocated the automatic testing for impairment where there has been a redesignation.

Staff View

Staff acknowledges that there is a strong rationale for specifying redesignation as an internal indication of impairment. This issue was considered by the sub-committee which developed ED 30: the current drafting of paragraph 114 reflects the sub-committee’s conclusion, which is justified in paragraph BC7 of the Basis for Conclusions. On balance, Staff considers that introducing an automatic requirement for impairment testing where an asset has been redesignated is unduly onerous and that the external and internal indicators in paragraph 28 are sufficient. Staff seeks a reconfirmation of this approach.

Staff Recommendation: Reconfirm that redesignation from a cash-generating asset to a non-cash-generating asset and vice-versa should not be an indication of impairment.

v) Criteria for inclusion of Examples

Respondent 2 highlighted that there are three ways in which examples have been included in ED 30:

- (a) directly in the text of a paragraph (e.g., see paragraph 115)
- (b) in the body of the text of the ED, but distinguished from other text by being presented in a black box and labeled as non-authoritative.
- (c) in implementation guidance.

Respondent 2 found this variety of methods confusing, was unclear about the criteria for determining where an example was located and asked whether the different methods will be maintained for the finalized IPSAS. The respondent also asked whether the distinctions are consistent with the use of examples in existing IPSASs. This respondent also questioned why type (b) and (c) examples are non-authoritative and type (a) examples are authoritative. A respondent to ED 31, “Employee Benefits” also questioned why boxed examples in the text of that ED are non-authoritative, (see Agenda Items 6.0 and 6.2)

Staff View

A number of IPSASs include examples in paragraphs in the body of the text e.g. IPSAS 16, “Investment Property” and IPSAS 17, “Property, Plant and Equipment”. IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” contains a boxed example in the body of the text, although to a much more limited extent than in ED 30. The original version of IPSAS 17 also contained a boxed example, although this was deleted from the revised version issued in 2006. ED 31, “Employee Benefits” also contains a number of boxed examples in the body of the text (following IAS 19). Staff thinks that the boxed examples are helpful to readers, but that they should be authoritative

Staff Recommendation: Confirm approach to Examples. Make boxed Examples in body of text authoritative.

ANALYSIS OF RESPONSES TO ED 30 “IMPAIRMENT OF CASH-GENERATING ASSETS”

SPECIFIC MATTER FOR COMMENT (1)

Assets that are carried at revalued amounts under the revaluation model in IPSAS 17, “Property, Plant and Equipment” should be excluded from the scope of this ED.

SUMMARY OF OVERALL VIEW

AGREE	A	6
DISAGREE	B	13
NO CLEAR VIEW EXPRESSED	C	3
TOTAL		22

Percentage supporting view (A)-out of those expressing a view 32%

Percentage supporting view (B)-out of those expressing a view 68%

	NAME	VIEW	COMMENT
1.	Association of Chartered Certified Accountants (ACCA) (UK)	A	

2.	Canadian Institute of Chartered Accountants (Canada)	B	<p>We understand the reasoning behind excluding such assets from ED 30. However, there may be times when an impairment assessment would be done under ED 30 but the requirements of IPSAS 17 would not require a revaluation: IPSAS 17, paragraph 39 requires that revaluations be done “with sufficient regularity” and later paragraphs explain that the frequency of revaluation will vary with the type of asset and the frequency with which its fair value changes. The theory underlying the revaluation requirements does not appear to be “event-driven”. ED 30 requires that assets be evaluated for impairment losses on an annual basis. Events and circumstances in the accounting period are considered in evaluating whether an impairment loss has occurred. There may be cases where an asset is only revalued every 3-5 years but an event occurs in the period between valuations that indicates possible impairment. Would the requirements of IPSAS 17 as currently worded require the recognition of such a decrease in value (“impairment”) in the accounting period it occurs or would such a decrease only be reflected in the revaluation 2 years later?</p>
3.	Chartered Institute of Public Finance and Accountancy (CIPFA) (UK)	B	<p>The treatment of revaluation movements in primary financial statements does not follow IAS 36, and there is a risk that important information on loss of service potential will be confused with general asset price movements.</p> <p>It is not clear that there are special public sector considerations which justify variation from international accounting standards on this issue. Exempting (revalued) cash-generating assets from standard impairment requirements seems anomalous because of the direct read across against IAS 36.</p> <p>The Basis for Conclusions suggests that the primary driver for this accounting treatment is consistency with non-cash-generating assets. However, we consider it equally anomalous to exempt (revalued) non-cash-generating assets from standard impairment accounting requirements.</p>
4.	FAR SRS (Sweden)	A	<p>Agrees in general. However, it is doubtful that IPSASB has fully described what constitutes impairment. Is it to be understood that PPE held at revalued amounts cannot be impaired and that no impairment loss is to be accounted for separately in the income statement?</p>

5.	Institut der Wirtschaftsprüfer (IDW) (Germany)	B	<p>Do not agree that assets carried at revalued amounts under the revaluation model in IPSAS 17 “Property, Plant and Equipment” should be excluded from the scope of ED 30 for the following reasons: The IPSASB argues in paragraph 10 that it is unlikely that the recoverable amount of an asset will be materially less than an asset’s revalued amount and that any such differences would relate to the costs of disposal of the asset. Assuming that the disposal costs are negligible, this argumentation holds true. But, when disposal costs are not negligible, the fair value less cost to sell of the revalued asset will necessarily be less than its fair value. Therefore, the revalued asset will be impaired if its value in use is less than its revalued amount (see IAS 36.5 (a), (ii)).</p> <p>If there is no market based evidence of fair value because of the specialized nature of the item of property, plant and equipment and the item is rarely sold, an entity may need to estimate the revalued amount using an income or a depreciated replacement cost approach (see IPSAS 17.42 f.). In such a case, it may be necessary to recognize the impairment of a revalued asset if the revalued amount is greater than its recoverable amount (see IAS 36.5(b)), because in contrast to the value in use of a non-cash-generating asset the recoverable amount, which is here the value in use of a cash-generating asset, may not be determined using a depreciated replacement cost approach (see ED 30.14 and IPSAS 21.40 ff.).</p> <p>Further, there are no special public sector considerations which justify the departure from IAS 36 on this issue.</p>
----	--	---	---

6.	Institute of Chartered Accountants of England and Wales (ICAEW) (UK)	B	We have previously expressed concern that ED 23 <i>Impairment of assets</i> did not apply to revalued assets. This exclusion was subsequently carried through into IPSAS 21. We agree that the policy of accounting for assets at valuation is widespread in the public sector (including most of the UK public sector). But we do not find the IPSASB's explanation for its approach - broadly that because assets are generally revalued it would be onerous to impose a further requirement for impairment testing - altogether convincing. As set out above, we believe that IPSAS should not diverge from IFRS except in exceptional circumstances. However, given that IPSAS 21 excludes revalued assets we understand the Board's reluctance to take a different line in ED 30. As we noted in our response to ED 23, this approach does at least simplify the accounting for impairments and reversals of impairments by avoiding the problem of direct write-offs to the revaluation reserve.
7.	Institute of Chartered Accountants of Scotland (ICAS) (UK)	B	We do not support the argument that assets carried at revalued amounts will be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value at the reporting dates.
8.	Institute of Certified Public Accountants (CPAs) of Cyprus: Public Sector Committee	B	Believe that there could be cases where selling costs could be material e.g. the cost of removing an asset and restoring a site, and therefore assets that are carried at revalued amounts under the revaluation model in IPSAS 17 should not be excluded from the scope of the proposed Standard.
9.	The Japanese Institute of Certified Public Accountants (JICPA)	A	
10	Royal Nivra (Netherlands)	B	Inconsistent with IAS 36 and paragraphs BC3-4 does not present any public sector specific reason to deviate. Admittedly IPSAS 21 also excludes assets carried at revalued amounts under the revaluation model in IPSAS 17 from its scope, but this may be fixed as an amendment to other IPSASs. We prefer convergence with IAS 36 over the current wording of IPSAS 21.

11.	South African Accounting Standards Board (SAASB)	B	<p>We note the rationale by the IPSASB in BC 3 and 4 regarding the reasons for excluding property, plant and equipment carried at revalued amounts, but we do not believe that the reasons given sufficiently substantiate the reasons for departing from IAS 36. It may be inappropriate to assume that the costs to sell are immaterial, and we do not believe that this is a public sector specific reason to deviate.</p> <p>The cost of revaluing certain public sector assets may initially be quite expensive (some time may pass before revaluation models have been established) and as a result an entity may not revalue their assets with “sufficient regularity”.</p> <p>The disposal costs of certain specialised assets in the public sector may be significant. We therefore recommend the inclusion of paragraph 5 of IAS 36 in this Standard. The information in the paragraph would provide guidance to management on identifying whether such revalued assets are impaired.</p>
12.	United Kingdom Accounting Standards Board (UK ASB)	B	<p>Disagree with the proposal to exclude assets that are carried at revalued amounts under the revaluation model in IPSAS 17, “Property, Plant and Equipment”. Whilst we accept that the frequency of valuation should help ensure that any impairment is incorporated in the valuation of the asset, we do not view the revaluation process as negating the need for impairment testing.</p>
13.	Australian Accounting Standards Board (AASB)	A	<p>Board considers that if an asset’s fair value is determined by reference to the asset’s depreciated replacement cost that amount, if estimated reliably, should not exceed the asset’s recoverable amount.</p>
14.	Office of the Comptroller General: British Columbia (Canada)	B	<p>Disagree with this position because the ED makes a point of the need to test for impairment every year. IPSAS 17 when using the option to revalue assets indicates the revaluation may be undertaken every five years. We agree that if impairment does not appear likely a revaluation is not necessary. However, to be consistent we feel that revalued assets need to be considered and thought about every year with regard to impairment.</p>

15	Heads of Treasury Accounting and Reporting Advisory Committee (HOTARAC) (Australia)	B	<p>Exclusion does not acknowledge that the recoverable amount under ED 30 may be lower than the revalued amount under IPSAS 17.</p> <p>For specialized assets in the public sector, there is a very real possibility that the “value in use” of the cash generating unit, based on discounted cash flows, could be lower than the sum of the depreciated replacement cost of those assets. Where this is the case HoTARAC believes that it is appropriate that those assets should be written down proportionately to reflect that impairment, as required by IAS 36.</p>
16.	Ekonomistyrningsverket (ESV) (Swedish National Financial Management Authority)	C	
17.	Swiss Federal Office of Finance and Conference of Cantonal Ministers of Finance	A	
18.	Australasian Council of Auditors-General	A	<p>Given the limited scope of ED 30, we agree that it is reasonable to exclude discussion about assets that are accounted for using the revaluation model as that is dealt with adequately by IPSAS 17, “Property, Plant and Equipment.”</p>
19.	Lawrens Van Wyngaardt: Development Bank of South Africa	C	

20.	Fédération des Experts Comptables Européens (FEE)	B	The Basis for Conclusions (BC3-BC4) repeats the IPSASB view that IPSAS 17 is already sufficiently stringent to avoid materially misstating assets and that it would be onerous to require further impairment testing. As acknowledged in the Basis for Conclusions, this view is not consistent with IAS 36 and it is not clear that there are special public sector considerations which should justify variation from other international accounting standards on this issue, particularly in the case of cash-generating assets. A particular example might be the existence of material selling costs associated with a revalued asset.
21.	Jean-Bernard Mattret (France)	B	Disagree because IAS 36 does not exclude from its scope cash-generating property, plant and equipment carried at revalued amounts at the reporting date.
22.	Joseph S. Maresca (USA)	C	

SPECIFIC MATTER FOR COMMENT (2)

There should not be detailed requirements or guidance relating to goodwill.

SUMMARY OF OVERALL VIEW

AGREE	A	10
AGREE WITH RESERVATIONS	B	4
DISAGREE	C	7
NO CLEAR VIEW EXPRESSED	D	1
TOTAL		22

Percentage supporting views (A) and (B)- out of those expressing a view – 67%

Percentage supporting view (C)- out of those expressing a view –33%

	NAME	VIEW	COMMENT
1.	Association of Chartered Certified Accountants (ACCA) (UK)	A	
2.	Canadian Institute of Chartered Accountants (Canada)	B	Goodwill should be taken out of the scope of the standard specifically and addressed separately for the public sector when the IPSASB agenda allows.
3.	Chartered Institute of Public Finance and Accountancy (CIPFA) (UK)	A	
4.	FAR SRS (Sweden)	C	In those circumstances where goodwill is accounted for in the consolidated statements more detailed guidance is required
5.	Institut der Wirtschaftsprüfer (IDW) (Germany)	A	Assume that goodwill is rather seldom in the public sector. Therefore, we believe it is acceptable to leave out detailed requirements or guidance relating to goodwill. However, a reference to IAS 36 should be included for cases in which guidance is needed.

6.	Institute of Chartered Accountants of England and Wales (ICAEW) (UK)	B	Agree that it is not worth developing detailed additional guidance for goodwill, given that it will rarely arise in the public sector. However, we note a possible inconsistency arising from paragraph 94, which requires an impairment loss in a CGU to be allocated pro rata to the assets. Since goodwill is not specifically excluded from the standard, this would include a pro rata allocation to goodwill, where it exists, yet IAS 36 requires goodwill to be impaired first. It may be helpful to include an explicit reference to follow IAS 36 where an entity has goodwill.
7.	Institute of Chartered Accountants of Scotland (ICAS) (UK)	C	We recommend that if goodwill falls within the scope of IPSASs then guidance relating to goodwill should be included within IPSASs. Excluding goodwill appears inconsistent with the development of a comprehensive set of accounting standards for public sector entities. Although, we recognise that public sector entities do not generally have goodwill assets, public sector entities preparing group accounts may need to account for goodwill should they own business enterprises.
8.	Institute of CPAs of Cyprus: Public Sector Committee	A	It is not in the normal course of business for public sector entities to acquire entities, thus goodwill does not appear regularly on the statement of financial position.
9.	The Japanese Institute of Certified Public Accountants (JICPA)	A	Think that detailed requirements and guidance relating to goodwill should not be included in the standard because the accounting treatment of goodwill in the public sector has not been fully discussed in IPSASB.
10	Royal Nivra (Netherlands)	A	Agree with the inclusion of goodwill in the scope of the standard. Because goodwill is not a significant item in the public sector we agree with the proposal not to provide specific guidance. However, the deletion of the black letter requirement on the treatment of goodwill in paragraph 94 means that impairment losses are allocated in a fundamentally different way from paragraph 104 in IAS 36.

11.	South African Accounting Standards Board (SAASB)	B	<p>We support the proposal that goodwill should not be excluded from the scope of the Standard, and that no specific guidance should be provided. We would however propose that the Standard include a paragraph on where guidance can be found i.e. in IAS 36. We propose that a similar approach be followed for indefinite intangible assets. See the “Other Comment” section of our letter for our comment regarding indefinite intangible assets. Including intangible assets and goodwill in the scope of the Standard without any detailed requirement and guidance is not useful to the user of the Standard. In addition, we are of the view that where goodwill exists in an entity, it would affect the way any impairment loss that exists in a cash-generating unit would be allocated, an aspect that has not been addressed in the exposure draft. This supports the inclusion of guidance on goodwill in this Standard.</p>
12.	United Kingdom Accounting Standards Board (UKASB)	A	
13.	Australian Accounting Standards Board (AASB)	B	<p>Agrees with the IPSASB’s reasons for excluding the requirements in IAS 36 in relation to impairment of goodwill, as set out in paragraph BC9 of the Basis for Conclusions. However, the Board considers that it is illogical not to exclude goodwill from the scope of the proposed Standard for the same reason.</p>
14.	Office of the Comptroller General: British Columbia (Canada)	B	<p>Do not believe that this is the appropriate placement of goodwill. Do not see goodwill in, and of itself, as a cash-generating asset; it is an intangible asset, which is only truly realizable at the point of sale.</p> <p>Canada’s Public Sector Accounting Standards Board does not provide for the recognition of intangible assets and specifically excludes goodwill from Canadian public sector financial statements.</p>

15.	Heads of Treasury Accounting and Reporting Advisory Committee (HOTARAC) (Australia)	C	Recognises that goodwill is not a significant item for the public sector. However, HoTARAC believes that detailed requirements and guidance on impairment testing of cash-generating units which include goodwill would assist preparers of financial statements. The IPSASB could use the relevant paragraphs in IAS 36 for this purpose.
16.	Ekonomistyrningsverket (ESV) (Swedish National Financial Management Authority)	C	Not common for agencies within the Central Government in Sweden to acquire enterprises and goodwill arises. But it could nevertheless happen. Therefore we believe that it could be appropriate to deal explicitly with goodwill within this standard.
17.	Swiss Federal Office of Finance and Conference of Cantonal Ministers of Finance	A	
18.	Australasian Council of Auditors-General	C	It is conceivable that an entity that may be covered by the proposed standard may acquire goodwill as a consequence of a business combination. We agree that goodwill should be included within the scope of ED30, but the proposed standard might benefit from some discussion about the treatment of goodwill acquired by an entity, the allocation of goodwill to cash-generating units and the testing of cash-generating units with goodwill for impairment.
19.	Lawrens Van Wyngaardt (South Africa)	C	
20.	Fédération des Experts Comptables Européens (FEE)	A	
21.	Jean-Bernard Mattret (France)	C	
22.	Joseph S. Maresca (USA)	D	

SPECIFIC MATTER FOR COMMENT (3)

The definition of cash-generating assets “held with the primary objective of generating a commercial return” is appropriate.

SUMMARY OF OVERALL VIEW

AGREE	A	13
DISAGREE	B	7
NO CLEAR VIEW EXPRESSED	C	2
TOTAL		22

Percentage supporting view (A) of those expressing a view – 65%
 Percentage supporting view (B) of those expressing a view 35%

	NAME	VIEW	COMMENT
1.	Association of Chartered Certified Accountants (ACCA) (UK)	A	It may be that the scope of the proposed standard would be clearer if the title was amended to “Impairment of Assets Held for a Commercial Return”.
2.	Canadian Institute of Chartered Accountants (Canada)	A	The explanatory guidance in paragraphs 16-21 is key to explaining and applying this concept in the public sector and should be maintained in the final standard.
3.	Chartered Institute of Public Finance and Accountancy (CIPFA) (UK)	A	
4.	FAR SRS (Sweden)	A	
5.	Institut der Wirtschaftsprüfer (IDW) (Germany)	A	

6.	Institute of Chartered Accountants of England and Wales (ICAEW) (UK)	A	Broadly content with the definition of cash-generating assets. However, we are concerned that the requirement for the asset to be held ‘primarily’ for the purpose of generating a commercial return does not appear to be applied consistently throughout the ED. For example, the MRI scanner referred to in IG16 is held primarily as a public benefit – i.e. for the treatment of non-fee paying patients. It is therefore a non-cash-generating asset. However, it is then partially allocated as a cash-generating asset to a cash-generating unit. The example would be further complicated if the scanner were used in a ward that was itself used for fee-paying and non-fee paying patients. We question whether it is either practical or sensible to have identical assets, or different parts of the same asset, valued on different bases in the financial statements, which would be the effect of applying the ED.
7.	Institute of Chartered Accountants of Scotland (ICAS) (UK)	C	No comments to make on the definition of cash generating assets.
8.	Institute of CPAs of Cyprus: Public Sector Committee	A	
9.	The Japanese Institute of Certified Public Accountants (JICPA)	A	
10	Royal Nivra (Netherlands)	B	Although we acknowledge that the definition in this ED is in conformity with the definition in IPSAS 21 we do not agree with the definition of cash-generating assets. We would like to suggest the following definition: “Cash generating assets are assets held with the primary objective of generating a positive cash inflow from the asset (or from the cash-generating assets of which the asset is part)”.
11.	South African Accounting Standards Board (SAASB)	A	See response to SMC4 below.

12.	United Kingdom Accounting Standards Board (UKASB)	A	
13.	Australian Accounting Standards Board (AASB)	A	
14.	Office of the Comptroller General: British Columbia (Canada)	B	Definition of cash-generating assets is too vague and the application proposed in the ED is too minutely focused. It could lead to subsidized operations or public infrastructure that is supported by fees...being included with cash-generating assets. Believe that subsidized operations should be specifically excluded to ensure clarity.
15.	Heads of Treasury Accounting and Reporting Advisory Committee (HOTARAC) (Australia)	B	Does not agree with the proposed definition of cash-generating assets, as the language used is not consistent with the definition of a “cash-generating unit”, which is based on “cash inflows” This is similar to the approach adopted in the Australian equivalent to IAS 36. Does not support using the term “commercial return” as it may be subject to differing interpretations.
16.	Ekonomistyrningsverket (ESV) (Swedish National Financial Management Authority)	B	Can be difficult to define what assets should be classified as cash-generating assets e.g. assets in operations with a full cost pricing model. Full cost pricing model can be used, but it is nearly a monopoly and the public have no realistic alternative. If it is not a commercial market it cannot be a cash-generating asset.
17.	Swiss Federal Office of Finance and Conference of Cantonal Ministers of Finance	A	

18.	Australasian Council of Auditors-General	B	<p>The Board has previously adopted a rigid definition of a cash-generating asset as part of IPSAS 21, with that definition now flowing through to ED 30, but it has not addressed circumstances where a public sector entity may be required to recover its operating costs through some pricing structure in circumstances where operating costs are defined as not including a normal return. The rigid definition of a cash-generating asset that has been adopted may be found wanting and we are aware of examples of entities that do not fit the definition of GBE, but which do, nevertheless, have commercial charters and employ assets for their ability to generate net cash inflows.</p> <p>More precise guidance may be required if the Board is to avoid creating circumstances where similar entities apply different approaches to measurement.</p>
19.	Lawrens Van Wyngaardt (South Africa)	B	It is suggested that a definition of "commercial return" be included in the draft exposure.
20.	Fédération des Experts Comptables Européens (FEE)	A	
21.	Jean-Bernard Mattret (France)	B	The cash-generating assets are equivalent to assets of GBEs, i.e. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge.
22.	Joseph S. Maresca (USA)	C	

SPECIFIC MATTER FOR COMMENT (4)

The guidance on identifying cash-generating assets is appropriate and clear.

SUMMARY OF OVERALL VIEW

AGREE	A	15
DISAGREE	B	4
NO CLEAR VIEW EXPRESSED	C	3
TOTAL		22

Percentage supporting view (A) out of those expressing a view – 79%

Percentage supporting view (B) out of those expressing a view – 21%

	NAME	VIEW	COMMENT
1.	Association of Chartered Certified Accountants (ACCA) (UK)	A	Agree with this proposal, especially the presumption that assets will not be considered as cash-generating unless there is clear evidence that this is the case.
2.	Canadian Institute of Chartered Accountants (Canada)	A	The guidance is clear except when an asset that is held with the primary objective of generating a commercial return has not done so for more than one period. Maybe a reference in paragraph 16 to paragraphs 114-115 would be appropriate. Please also see a similar issue in paragraph 102(a): how long should the increase in market value be in place for it to provide evidence that a reversal of an impairment loss is appropriate?
3.	Chartered Institute of Public Finance and Accountancy (CIPFA) (UK)	A	
4.	FAR SRS (Sweden)	A	
5.	Institut der Wirtschaftsprüfer (IDW) (Germany)	A	For the time being, we believe that the guidance on identifying cash-generating assets in paragraphs 16-21 is appropriate and clear. The application of the standard in practice will demonstrate whether more guidance would be helpful.

6.	Institute of Chartered Accountants of England and Wales (ICAEW) (UK)	B	Do not believe that the guidance on identifying cash-generating assets is sufficiently clear. The guidance should make it explicitly clear a ‘commercial return’ means that use of the asset is profit orientated - assets that are intended to break even or recover certain costs are not cash-generating for the purposes of the standard.
7.	Institute of Chartered Accountants of Scotland (ICAS) (UK)	C	
8.	Institute of CPAs of Cyprus: Public Sector Committee	A	Guidance is appropriate and clear. A thorough list in an appendix format could be included as well as real life examples.
9.	The Japanese Institute of Certified Public Accountants (JICPA)	A	
10.	Royal Nivra (Netherlands)	A	Agree with the guidance on identifying cash-generating assets. We think, however, that the short version of this guidance given in paragraph 16-17 of IPSAS 21 should include a reference to the full version of the guidance given in paragraph 16-21 of ED 30.

11.	South African Accounting Standards Board (SAASB)	A	<p>The Standard defines cash generating assets as those that have economic benefit that would arise through cash flows from the asset. We propose that, in explaining the definition, the IPSASB should consider including a process or list of sequential indicators that can be followed by users in considering whether or not assets are in fact cash or non-cash generating. We propose the following as indicators/steps within the decision process:</p> <ul style="list-style-type: none"> • The rebuttable presumption is stated clearly as the opening indicator (at commencement of the identification process). • Secondly, the primary purpose or intention should be considered. Paragraph 16 currently does this well. We would however propose that a discussion be included explaining that cash generating assets would generally generate a return over and above their maintenance requirements (i.e. the cash flows generated by cash generating assets would be sufficient to cover ongoing maintenance, as well as generate a profit). • Thirdly, the predominant use of the asset should be considered. If the generating of cash flows is merely incidental to the use of the asset, then the asset is deemed to be non-cash generating. If the cash flows are deemed to be significant, the entity needs to consider the next step. • Lastly, if the cash flows are deemed to be significant, the entity needs to establish whether or not the cash flows are generated independently of non-cash generating assets (or those non-cash generating assets can be allocated on a reliable basis to the cash generating units or operations) and those assets can be readily identified.
12.	United Kingdom Accounting Standards Board (UKASB)	A	Guidance on identifying cash-generating assets is appropriate and clear.
13.	Australian Accounting Standards Board (AASB)	A	Agrees with the guidance except that the penultimate sentence of paragraph 20 focuses on the outcome of using an asset....However, the definitions in ED 30 distinguish cash-generating assets from non-cash-generating assets according to the primary objective of holding the asset.

14.	Office of the Comptroller General: British Columbia (Canada)	B	Strongly oppose this approach. We look at systems holistically. The proposals are too theoretical and impractical; they basically ignore the realities of government service delivery. Paragraphs 17, 18 and 19 are particularly disconcerting.
15	Heads of Treasury Accounting and Reporting Advisory Committee (HOTARAC) (Australia)	A	<p>In principle agrees with the guidance in paragraphs 16-21 of ED 30, subject to the modification of the definition of cash-generating assets (see response to Q.3).</p> <p>The definition of a Government Business Enterprise used by the IPSASB in ED 30 and its other Standards, is not necessarily a surrogate for “a profit entity”</p>
16.	Ekonomistyrningsverket (ESV) (Swedish National Financial Management Authority)	C	
17.	Swiss Federal Office of Finance and Conference of Cantonal Ministers of Finance	A	
18.	Australasian Council of Auditors-General	B	This is an area where more precise guidance may be required if the Board is to avoid creating circumstances where similar entities apply different approaches to measurement.
19.	Lawrens Van Wyngaardt (South Africa)	B	
20.	Fédération des Experts Comptables Européens (FEE)	A	
21.	Jean-Bernard Mattret (France)	A	But see response to SMC 3.
22.	Joseph S. Maresca (USA)	C	

SPECIFIC MATTER FOR COMMENT (5)

If a non-cash-generating asset contributes to a cash-generating unit (CGU):

- a. It should firstly be assessed for impairment under IPSAS 21
- b. A proportion of the carrying amount of a non-cash-generating asset following the application of any impairment loss calculated under IPSAS 21 should be allocated to the carrying amount of any CGU to which it contributes.

SUMMARY OF OVERALL VIEW

AGREE	A	13
DISAGREE	B	5
NO CLEAR VIEW EXPRESSED	C	4
TOTAL		22

Percentage supporting view (A) out of those expressing a view 72%

Percentage supporting view (B) out of those expressing a view – 28%

	NAME	VIEW	COMMENT
1,	Association of Chartered Certified Accountants (ACCA) (UK)	A	
2.	Canadian Institute of Chartered Accountants (Canada)	A	Agreed but proposes drafting clarifications.
3.	Chartered Institute of Public Finance and Accountancy (CIPFA) (UK)	A	The guidance has the effect of ‘ring-fencing’ impairment considerations for non-cash-generating assets, so that all non-cash-generating assets are treated similarly, while noting that these assets may contribute to cash-generating activities.
4.	FAR SRS (Sweden)	A	
5.	Institut der Wirtschaftsprüfer (IDW) (Germany)	A	
6.	Institute of Chartered Accountants of England and Wales (ICAEW) (UK)	B	We noted above the example of the MRI scanner given in IG16. We question whether allocating an asset, the primary purpose of which is not to generate a commercial return, to the CGU is consistent with the logic of the definition of a cash-generating asset.

7.	Institute of Chartered Accountants of Scotland (ICAS) (UK)	C	
8.	Institute of CPAs of Cyprus: Public Sector Committee	A	
9.	The Japanese Institute of Certified Public Accountants (JICPA)	A	
10.	Royal Nivra (Netherlands)	A	
11.	South African Accounting Standards Board (SAASB)	B	<p>We do not support either of these proposals, because: The Standard proposes that non-cash generating assets which contribute to a CGU be tested firstly for impairment under IPSAS 21, while the measurement bases proposed in IPSAS 21 for determining the recoverable amount do not consider cash flows (which would typically be appropriate for cash generating assets). This may well result in the asset not being impaired under IPSAS 21 as the asset may be operating to its full capacity in terms of service potential.</p> <p>Secondly, by allocating the non-cash generating asset to the base value of the CGU and not allocating any impairment loss of the CGU to it, the other assets in the CGU would in fact be decreased below their true fair value. In addition, we believe that if non-cash generating assets contribute to the generation of cash flows, and the ‘cash generating’ potential is below what it should be, an impairment loss should be allocated to the cash generating portion of the non-cash generating asset.</p>
12.	United Kingdom Accounting Standards Board (UKASB)	A	The proposed approach for accounting for non-cash generating assets that may contribute to a cash generating unit is sensible.
13.	Australian Accounting Standards Board (AASB)	A	

14.	Office of the Comptroller General: British Columbia (Canada)	B	Operations have to be looked at holistically.
15.	Heads of Treasury Accounting and Reporting Advisory Committee (HOTARAC) (Australia)	A	Agrees in principle with the proposed treatment of non-cash-generating assets. Also strongly agrees with paragraph BC 5 of Basis for Conclusions and the guidance in paragraph 21.
16.	Ekonomistyrningsverket (ESV) (Swedish National Financial Management Authority)	C	
17.	Swiss Federal Office of Finance and Conference of Cantonal Ministers of Finance	A	Paragraph 96 is not very easy to understand and implement. Some more implementation guidance, perhaps an additional example, might be helpful.
18.	Australasian Council of Auditors-General	B	ACAG has reservations about the extent to which the recoverable amount of an individual asset that forms part of a cash-generating unit can be reasonably determined when the fair value of the cash-generating unit may rest upon the interdependence of a number of individual assets, both cash-generating and non-cash-generating. At this point it may be useful to raise again the question of goodwill given that if a cash-generating unit is impaired it can be argued that any subsequent write-down should be applied in the first instance to goodwill, with any balance pro-rated across all assets (both cash-generating and non cash-generating) that form part of the cash-generating unit. Flowing from this we believe there is a strong case for including discussion in the proposed standard about the measurement of non-cash-generating assets that form part of a cash-generating unit.
19.	Lawrens Van Wyngaardt (South Africa)	C	

20.	Fédération des Experts Comptables Européens (FEE)	A	The guidance has the effect of ‘ring-fencing’ impairment considerations for non-cash-generating assets, so that all non-cash-generating assets are treated similarly, while noting that these assets may contribute to cash-generating activities.
21.	Jean-Bernard Mattret (France)	B	This approach is not appropriate because IAS 36 does not deal with non-cash-generating assets that contribute to cash-generating units.
22.	Joseph S. Maresca (USA)	C	

SPECIFIC MATTER FOR COMMENT (6)

There is no need to include a definition of, and requirements and guidance related to, “corporate assets”

SUMMARY OF OVERALL VIEW

AGREE	A	14
DISAGREE	B	4
NO CLEAR VIEW EXPRESSED	C	4
TOTAL		22

Percentage supporting view (A) – out of those expressing a view 78%

Percentage supporting view (B) – out of those expressing a view 22%

	NAME	VIEW	COMMENT
1,	Association of Chartered Certified Accountants (ACCA) (UK)	A	
2.	Canadian Institute of Chartered Accountants (Canada)	A	Agreed, assuming that the reasoning for exclusion is that such assets are not a big issue in the public sector.
3.	Chartered Institute of Public Finance and Accountancy (CIPFA) (UK)	A	
4.	FAR SRS (Sweden)	B	For ED 30 to be a theoretically correct guidance on how to deal with corporate assets, some kind of method should be included. Otherwise, questions will arise concerning these assets, especially when it is certain that the value of goodwill will be more common in the consolidated public entities.
5.	Institut der Wirtschaftsprüfer (IDW) (Germany)	A	

6.	Institute of Chartered Accountants of England and Wales (ICAEW) (UK)	A	We agree. However, we question whether the approach in respect of cash-generating and non-cash-generating assets within CGUs is consistent. If a significant proportion of corporate assets are clearly being used on cash-generating activities, the carrying value of the assets being used for the impairment test will be understated unless an allocation is made to a CGU.
7.	Institute of Chartered Accountants of Scotland (ICAS) (UK)	A	
8.	Institute of CPAs of Cyprus: Public Sector Committee	A	
9.	The Japanese Institute of Certified Public Accountants (JICPA)	A	
10.	Royal Nivra (Netherlands)	A	
11.	South African Accounting Standards Board (SAASB)	C	According to our understanding corporate assets in the public sector are non-cash-generating assets that contribute to both CGU and non-CGU. However we are of the opinion that the Basis for Conclusions should provide clarification.
12.	United Kingdom Accounting Standards Board (UKASB)	A	
13.	Australian Accounting Standards Board (AASB)	B	<p>Disagrees with the omission from ED 30 of the guidance on corporate assets in IAS 36. A public sector entity other than a GBE may have more than one cash-generating unit with shared “entity infrastructure” composed entirely of cash-generating assets.</p> <p>It is illogical to include requirements for cash-generating units but not corporate assets.</p>

14.	Office of the Comptroller General: British Columbia (Canada)	A	Definition in IAS is sufficient to provide guidance on corporate assets.
15.	Heads of Treasury Accounting and Reporting Advisory Committee (HOTARAC) (Australia)	A	
16.	Ekonomistyrningsverket (ESV) (Swedish National Financial Management Authority)	C	
17.	Swiss Federal Office of Finance and Conference of Cantonal Ministers of Finance	A	
18.	Australasian Council of Auditors-General	B	As ED30 stands, it would seem that users are required to refer to IAS 36 for any guidance on the subject of corporate assets. This approach may carry some risks in that users may be required to rely upon a standard prepared for a different class of reporting entities for guidance. The inclusion of guidance within the body of the Board's standards may help to ensure that any guidance is placed in an appropriate context.
19.	Lawrens Van Wyngaardt (South Africa)	C	
20.	Fédération des Experts Comptables Européens (FEE)	A	
21.	Jean-Bernard Mattret (France)	B	Favors IAS 36 definition of corporate assets.
22.	Joseph S. Maresca (USA)	C	

ED 30. "IMPAIRMENT OF CASH-GENERATING ASSETS" SUMMARY OF OTHER COMMENTS

Submission Number	Name	Respondent Comment	Staff Response
		SCOPE	
11	South African Accounting Standards Board	<p>ED 30 specifically scopes out:</p> <ul style="list-style-type: none"> biological assets related to agricultural activity that are measured at fair value less estimated point-of-sale costs agriculture activity being scoped out of the impairment standard and non-current assets held for sale <p>Neither of these items are scoped out of IPSAS 21</p> <p>We propose that specific reference be made to biological assets in IPSAS 21 as well.</p> <p>As the IPSASB has not made consequential amendments to any IPSAS as a result of IFRS 5, we would consider it to be inappropriate to include a reference to it in the impairment Standard.</p>	<p>Agree that a consequential amendment to IPSAS 21 should be made scoping out biological assets related to agricultural activity that are measured at fair value less costs to sell.</p> <p>Accept that no consequential amendments to current IPSASs have been made as a result of the introduction of IFRS 5. Agree that this scope exclusion should be deleted and issue reconsidered, as and when IFRS 5 is addressed.</p>
		DEFINITION OF CARRYING AMOUNT	
11	South African Accounting Standards Board	<p>The definition of carrying amount should be amended as follows:</p> <p><i>"Carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation (<u>amortization</u>) and accumulated impairment losses therein.</i></p> <p>This is because cash-generating intangible assets have been included in the scope of the Standard.</p>	Accept. Will amend.
		TREATMENT OF INTANGIBLE ASSETS	
11	South African Accounting Standards Board	No guidance is provided in IPSAS 21 on the impairment of intangible assets (indefinite or otherwise) whereas extensive guidance has been provided for indefinite intangible	Accept that there is a lack of symmetry between IPSAS 21 and ED 30. In practice Staff thinks it unlikely

		<p>assets from IAS 36.</p> <p>It is unclear why the ED includes extensive guidance on intangible assets while IPSAS 21 does not include any guidance (yet the scope of it is the same). We propose that either:</p> <ul style="list-style-type: none"> • The same guidance on intangible assets be provided in IPSAS 21; or • That the guidance in the ED is deleted, and both Standards refer to IAS 36 for guidance on impairing intangible assets. 	<p>that non-cash-generating intangible assets will be at all common in the public sector. Staff suggests that this issue is updated in a future revision of IPSAS 21.</p>
		FLEXIBILITY IN CALCULATION OF ASSET'S VALUE IN USE	
2	Canadian Institute of Chartered Accountants	<p>The elements identified in paragraph 46(b), (d) and (e) can be reflected either as adjustments to the future cash flows or as adjustments to the discount rate. Whichever approach an entity adopts to reflect expectations about possible variations in the amount and timing of future cash flows, the result shall be to reflect the expected present value of the future cash flows, i.e. the weighted average of all possible outcomes.....</p> <p>Would the result be materially different if an entity reflects the elements identified in paragraph 46(b), (d) and (e) as adjustments to future cash flows or as adjustments to the discount rate? Would the result be materially different if the traditional approach to present value is used instead of the expected cash flow approach? At a minimum, the IPSASB could indicate a preference regarding the method used in relation to each of these questions.</p>	<p>The elements listed in paragraph 46 and the commentary in paragraphs 47 and 48 mirror paragraphs 30-32 of IAS 36. Staff acknowledges that further guidance might be useful but does not think that there is a public sector reason for IPSASB to indicate a preference for a particular approach.</p>
		USE OF ESTIMATES IN MEASUREMENT OF RECOVERABLE AMOUNT	
2	Canadian Institute of Chartered Accountants	<p>Paragraph 39 seems to provide permission for entities to estimate however they like. This is not an appropriate inclusion in a standard. Permission does not need to be officially granted and entities will use what ever methods their auditor will accept.</p>	<p>Paragraph 39 mirrors paragraph 23 of IAS 36. Staff can see no reason to depart from the IAS 36 position.</p>

		FAIR VALUE LESS COSTS TO SELL: FORCED SALES	
2	Canadian Institute of Chartered Accountants	<p>Questions sentence “ Fair value less costs to sell does not reflect a forced sale, unless management is compelled to sell immediately” in paragraph 43.</p> <p>Unless all entities in the industry are required to do a forced sale, this would not really be “fair value”. This sentence should be deleted.</p>	<p>Last sentence of paragraph 43 mirrors final sentence of paragraph 27 of IAS 36. Staff can see the logic of this view, but does not think that there is a public sector reason for instigating a debate on what constitutes a forced sale .</p>
		FAIR VALUE HIERARCHY	
11	South African Accounting Standards Board	<p>Paragraphs 41 – 43 provide a hierarchy for the measurement of fair value. We request that the Standard acknowledges the possibility that an entity may use depreciated replacement cost as a last resort even if it is a cash-generating asset. This is in line with guidance on determining fair value included in other IPSASs</p>	<p>Agree. Other respondents also raised the possibility of depreciated replacement cost being used for a cash-generating asset (e.g. no. 5 IDW). Will add additional paragraph with cross-references to IPSAS 17.</p>
		INCONSISTENCIES IN INDICATORS OF IMPAIRMENT BETWEEN IPSAS 21 AND ED 30	
11	South African Accounting Standards Board	<p>The indicators in IPSAS 21 refer to ‘long term changes’ in either the market, economic or legal environment; as well as ‘long term’ adverse changes in the way in which an asset is used. ED 30 does not stipulate that only ‘long term’ changes result in indicators of impairment.</p> <p>It is unclear why this difference exists, and it is not explained in the Basis for Conclusions of either documents. The revised IAS 36 does not stipulate anymore that only ‘permanent’ differences should be accounted for as an impairment. We propose that unless there is a specific reason to deviate, IPSAS 21 should be amended.</p>	<p>The phrase “long-term changes” was inserted in IPSAS 21 because it was considered onerous for entities to have to test for the impairment of non-cash-generating assets for temporary environmental changes e.g. a municipal sports stadium, not held for commercial purposes, with a reduced annual attendance due to a subsequently resolved strike in a major sport. Staff accepts that this was not explained in the Basis for Conclusions in IPSAS 21 and was not highlighted as a departure from IAS 36. Staff considers that this rationale is still robust in relation to non-cash-generating assets and that an explanation should be inserted in a future revision of IPSAS 21.</p>

		SUBJECTIVITY OF CALCULATION OF VALUE-IN-USE AND COMPOSITION OF ESTIMATES OF FUTURE CASH FLOWS	
2	Canadian Institute of Chartered Accountants	<p>Highlights disclosure requirement in paragraph 46(a) and use of management estimates in measurement of value-in-use in paragraph 49. Concerned with the subjectivity inherent in measuring impairment on the basis of management's best estimate of the future cash flows from the asset. The same impaired asset could be recorded at different amounts depending on management's views of the future and their intended use of the asset. For example, the less efficiently that management expects to operate the asset, the lower the recoverable amount at which the impaired asset will be recorded in the balance sheet (and the lower the future depreciation charges). This would also result in a lack of comparability for impairment losses of similar assets in similar circumstances. CAcSB favors an adoption of an approach to impairment losses that more closely approximates the US private sector model.</p> <p>In context of paragraph 57 also highlights subjectivity in projections of cash outflows including those for the day-to-day servicing of the asset as well as future overheads that can be attributed directly, or allocated on a reasonable and consistent basis.</p>	Staff acknowledges that the reliance on management estimates is at odds with the distrust of management estimates that is a feature of standards in some jurisdictions. However, the use of management estimates is fundamental to IAS 36 and there is no public sector reason to depart from IAS 36 requirements. Staff also notes that a reliance on fair value can be problematic from a public sector perspective.
		DISCOUNT RATE	
2	Canadian Institute of Chartered Accountants	<p>Paragraphs 46(c) and Implementation Guidance A1(c) talk about "the time value of money, represented by the current market risk-free rate of interest". Paragraph 48 notes that this may be adjusted for the elements in paragraph 46 (b), (d) and (e) unless these elements have already been used to adjust the future cash flows.</p> <p>Paragraphs 71-73 use different language.</p> <p>Assuming that these two parts of ED 30 are meant to convey the same message, at a minimum, paragraph 71 (a) should read the same as 46(c) and A1(c): "the time value of money, represented by the current market risk-free rate of interest". Some cross referencing between these paragraphs and paragraph 48 might also alleviate confusion.</p>	Staff acknowledges this apparent discrepancy and will take it up with IASB staff. The current references in paragraphs 46(c), Implementation Guidance A1(c) and paragraphs 71-73 mirror paragraphs 30(c) A1(c) and paragraphs 55-57 of IAS 36.

11	South African Accounting Standards Board	<p>Guidance provided in ED 30 stipulates that entities should use a 'market risk free rate' to discount cash flows for determining the value-in-use of assets. Although all the methods used to determine value-in-use refer to the 'present value of' no guidance is provided regarding what rate should be used in these calculations. We propose that:</p> <ul style="list-style-type: none"> ▪ guidance (similar to that in the proposed ED) be provided in IPSAS 21 on the rate to be used when calculating value in use; ▪ guidance regarding the rate to be used, be elaborated on in A17.c and that a reference to the yield on government bonds with similar maturity (similar to the proposed Standard on Employee Benefits) be included. 	<p>In IPSAS 21 the value-in-use of a non-cash-generating asset is defined as the present value of the asset's remaining service potential. IPSAS 21 then provides grey letter commentary on three approaches for determining this quantum-the depreciated replacement cost approach, the restoration cost approach and the service units approach. Guidance is also provided on the circumstances under which a particular approach might be applied. There are a number of examples of the application of these approaches in an Appendix to IPSAS 21. None of these approaches involve the estimation of cash inflows, so guidance on a discount rate is not appropriate for IPSAS 21.</p> <p>Paragraph A17 of Appendix A mirrors the same paragraph in IAS 36. Staff do not think that it is appropriate to indicated a preference for a discount rate based on a particular instrument,</p>
----	--	--	---

		IMPAIRMENT LOSS GREATER THAN CARRYING VALUE LEADING TO RECOGNITION OF A LIABILITY	
2	Canadian Institute of Chartered Accountants	<p>Paragraphs 77 and 99 require further elaboration or the addition of an example or maybe a cross reference to a standard that requires such accounting. If no such IPSAS currently exists then simplicity would argue for the removal of these paragraphs. Hopefully the following will explain the confusion:</p> <p>Paragraph 75 (and the comparable paragraph for a cash-generating unit, paragraph 94) state that when the recoverable amount (RA) of an asset is less than the asset's carrying value (CV), the CV of the asset shall be reduced to its RA. Thus, the impairment loss (IL) = CV-RA.</p> <p>Paragraph 77 (and 99) then say that when an IL is greater than the CV, the entity would recognize a liability if required by another standard. However, based on the above idea that an impairment loss only arises when $CV > RA$ and the calculation $IL = CV - RA$, how can the IL be $> CV$?</p> <p>The only example we could think of was when an asset had some kind of environmental costs associated with it – such as de-commissioning costs. However, we concluded that such costs were a separate issue and their recognition should not be intertwined with the recognition of an impairment loss.</p>	Paragraphs 77 and 99 mirror paragraphs 62 and 108 of IAS 36. In explanatory commentary, paragraph 79 of IAS 36 refers to IAS 12, "Income Taxes". Staff does not think that this example is relevant in the public sector and is not aware of other requirements for impairment losses to be treated as liabilities in the current suite of IPSASs. Staff therefore agrees that paragraphs 77 and 99 are potentially confusing and should be deleted in developing a Standard based on ED 30.
11	South African Accounting Standards Board	Paragraph 77 states ".....required by another Standard". It is not clear what International Public Sector Accounting Standard or International Accounting Standard is referred to.	See above.

		CRITERIA FOR INCLUSION AND LOCATION OF EXAMPLES	
2	Canadian Institute of Chartered Accountants	<p>There appear to be three ways in which examples have been included in ED 30:</p> <ul style="list-style-type: none"> (a) Some examples are included directly in the text of a paragraph in the draft standard itself (e.g., see paragraph 115) (b) Some examples are included in the text of the standard but are differentiated from other text by being presented in a black box and labeled as non-authoritative. (c) Some examples are set out in the implementation guidance. <p>We are confused as to the reasons for the distinctions (i.e., the criteria which determine how an example will be set out in the ED), whether those distinctions will be maintained for the final IPSAS and whether the distinctions are consistent with the use of examples in existing IPSAS. Presumably, there is a reason why types (b) and (c) are non-authoritative and type (a) examples are authoritative.</p>	<p>A number of IPSAS Standards include examples in the body of the text e.g. IPSAS 16, "Investment Property" and IPSAS 17, "Property, Plant and Equipment". IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" contains a boxed example in the body of the Standard, although to a much more limited extent than in ED 30. The original version of IPSAS 17 also contained a boxed example, although this was deleted from the revised version issued in 2006. ED 31, "Employee Benefits" also contains a number of boxed examples in the body of the Standard (following IAS 19). Staff thinks that the boxed examples are helpful to readers, but that they should be authoritative.</p>
		BETTERMENTS AND REVERSALS OF IMPAIRMENT LOSSES	
2	Canadian Institute of Chartered Accountants	<p>Paragraph 102(d), last sentence indicates that betterments to an asset made in the period might provide evidence that an impairment loss should be reversed. IPSAS 17, paragraph 33 would require such costs to be capitalized if they increase the future economic benefits or service potential of the related asset. How does this accounting fit in with the requirements in paragraphs 108-113 that deal with the measurement and recognition of a reversal of an impairment loss? Perhaps this is just a mechanical issue to ensure that the effect of the betterment is not double counted but greater clarity on the interrelationship between the accounting for a betterment and the accounting for the reversal of an impairment loss would be helpful.</p>	<p>The last sentence of paragraph 102 (d) mirrors the last sentence of paragraph 111(d) in IAS 36. Staff does not think that there is tension with the requirements of paragraph 108-113, which are based on paragraphs 117-123 of IAS 36. Staff also does not think that there is a danger of the cost of betterments (improvements or enhancements) being double-counted, as improvements and enhancements are an indicator that an asset's recoverability may have increased in the reporting period- they will therefore lead to a projection of cash flows on a present value basis and a comparison with carrying amount.</p>

			The cost of betterments will have been recognized prior to impairment testing.
		CONTRADICTION BETWEEN PARAGRAPH 35 and PARAGRAPH 38(a)	
2	Canadian Institute of Chartered Accountants	<p>Paragraph 38 requires additional clarification.</p> <p>We assume that sub-paragraph 38(a) refers back to the situation described in paragraph 35. If so, perhaps a cross reference might make this clear.</p> <p>The situation described in sub-paragraph 38 (b) seems contradictory to the premise set out in the introductory sentences of paragraph 38. How can value in use for the asset alone be calculated when the first sentence of paragraph 38 says that the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets?</p>	<p>Paragraphs 35 and 38 mirror paragraphs 19 and 22 of IAS 36. Recoverable amount is the higher of fair value less costs to sell and its value in use. If fair value less costs to sell is higher than carrying amount then the asset is not impaired regardless of whether value in use can be determined.</p> <p>Staff shares reservations of the respondent about the purpose of and operational practicality of paragraph 38 (b) and will take this up with IASB staff.</p>
		NEED FOR REDESIGNATION TO TRIGGER IMPAIRMENT TESTING	
6	Institute of Chartered Accountants of England and Wales	<p>We question whether it is appropriate to state that a redesignation between cash-generating and non-cash-generating assets, by itself, does not necessarily trigger an impairment test (paragraph 114). Particularly if an asset has been re-designated as cash-generating, it will be important to ensure that its carrying amount is not in excess of its recoverable amount taking into account its new usage. In addition, it may well need to be tested against the indicators listed in paragraph 28, which include significant changes in the way the asset is expected to be used (although paragraph 28 does refer to the changes being significant and adverse to the entity as a whole, which may not always be the case). There is a case for requiring automatic testing for impairment where there has been a re-designation</p>	<p>Staff notes this view and acknowledges that there is a strong rationale for specifying redesignation as an internal indication of impairment. On balance Staff considers that introducing an automatic requirement for impairment testing where an asset has been redesignated is unduly onerous and that the external and internal indicators in paragraph 28 are sufficient. Staff seeks directions on this issue..</p>

		REDESIGNATION	
11	South African Accounting Standards Board	<p>It may be useful to indicate whether a redesignation (paragraph 115) is a change in accounting policy or a change in estimate or that is not considered to be either.</p> <p>The standard gives some explanation of the designation between cash-generating and non-cash-generating assets. There is insufficient guidance as to how often this designation and redesignation will be allowed, which could potentially open this to manipulation. It could potentially allow entities to designate and redesignate between cash-generating assets and non-cash-generating assets.</p> <p>The scenario that could occur is where the asset was initially designated as a cash-generating-asset, however it does not generate the expected returns and is making losses; the entity could easily designate this asset as a “non-cash-generating” asset resulting in an inadequately managed asset not being impaired. We would like to recommend that the definition is more specific with regard to the criteria for asset reclassification.</p> <p>We accept that the intention of use of an asset may be changed at a particular point in time; however, the Standard should restrict redesignations when an asset has been utilized in the same manner for a number of years. In this case, we recommend that the standard should state that consideration should be given as to whether the redesignation be classified as an error in terms of GRAP 3.</p>	Staff considers that a redesignation is a change in estimate. Will add a sentence to paragraph 115 stating this.
		ALLOCATION OF IMPAIRMENT LOSSES TO CASH-GENERATING UNIT WITH ASSETS ON REVALUATION MODEL	
6	Institute of Chartered Accountants of England and Wales	It might be helpful if the Basis for Conclusions dealt with the issue of allocating impairment losses if a CGU contains both assets that have been revalued (which are outside the scope of the standard) and ones that have not been revalued. For example, if a CGU containing both is being impairment tested, should any revalued assets within it be revalued at that point to ensure that any impairment relating to a change in value of those assets is not	It is possible that the cash-generating unit might contain assets carried on both the cost and revaluation models, although Staff considers that this is unlikely. There would be an allocation of an impairment loss to any assets on the revaluation model within the

		allocated to the other assets?	cash-generating unit. IPSAS 17 includes a requirement that revaluation of such assets should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Staff does not think that it is necessary to restate that requirement.
		INCONSISTENCY BETWEEN DEFINITIONS OF CASH-GENERATING ASSETS IN IPSAS 21 and ED 30	
8.	The Japanese Institute of Certified Public Accountants	We think that it is necessary to change the definition of “cash-generating assets” included in IPSAS 21 from “assets held <u>to generate</u> a commercial return” to assets <u>held with the primary objective of generating a commercial return</u> ”	Staff notes this inconsistency and proposes to insert a consequential amendment to IPSAS 21.
		NEED FOR DEFINITION OF COMMERCIAL RETURN	
19	Lawrens Van Wyngaardt	It is suggested that a definition of commercial return be included. It could focus on the intention with the determination of tariffs.	Consistent with IPSAS 21, ED 30 does not include a definition of “commercial return”. Commentary in ED 30 on what constitutes a “commercial return “ is consistent with IPSAS 21. Staff does not consider that there is a need to defined “commercial return”
		OTHER	
2	Canadian Institute of Chartered Accountants	Paragraph 13, definition of “active market”: Add “arm’s length” to (b) of the definition as follows: “Willing <u>arm’s length</u> buyers and sellers can normally be found at any time:”.	The definition of an “active market” mirrors that at paragraph 6 of IAS 36. The definition also includes a condition that “prices are available to the public”. Staff thinks that this probably makes the addition of the term “arms-length” unnecessary and, in any case, does not think that there is a public sector specific reason to modify the definition.

2	Canadian Institute of Chartered Accountants	<p>Paragraph 64: Add “expected” as follows:</p> <p>64. Until an entity incurs cash outflows that improve or enhance the asset's performance, estimates of future cash flows do not include the estimated future cash inflows that are expected to arise from the increase in economic benefits associated with the <u>expected</u> cash outflow.</p>	Paragraph 64 mirrors substantially paragraph 48 of IAS 36. However, staff thinks that the addition of “expected” is helpful and proposes to insert in the revised draft Standard.
2	Canadian Institute of Chartered Accountants	<p>Paragraph 87 currently reads:</p> <p>“If an entity determines that an asset belongs to a cash-generating unit different from that in previous periods, or that the types of assets aggregated for the asset's cash-generating unit have changed, paragraph 122 requires disclosures about the cash-generating unit, if an impairment loss is recognized or reversed for the cash-generating unit.”</p> <p>This paragraph is unclear. When compared with the requirements in Paragraph 122, the following appears more appropriate:</p> <p>Proposed 87. When an entity has recognized or reversed an impairment loss for a cash-generating unit in the period and the aggregation of assets in the unit has changed, paragraph 122 requires disclosures regarding the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified. This would be required for example when an entity determines that an asset belongs to a cash-generating unit different from that in previous periods, or that the types of assets aggregated for the asset's cash-generating unit have changed</p>	Paragraph 87 mirrors very substantially paragraph 73 in IAS 36. Staff does not think that it is necessary to repeat the detailed requirements of paragraph 122 in paragraph 87.
2	Canadian Institute of Chartered Accountants	<p>Paragraph 122(e): Add “or cash generating unit” after “asset”</p>	Agree. Will insert.
2	Canadian Institute of Chartered Accountants	<p>Paragraphs 125(e)(i) and 126(d)(i): Change tense of requirements as follows:</p> <p>125(e)(i) The amount by which the unit's recoverable amount <u>would</u> exceeds its carrying amount;</p> <p>126(d)(i) The amount by which the aggregate of the units' recoverable amounts <u>would</u> exceeds the aggregate of their carrying amounts;</p>	These paragraphs mirror of IAS 36. However, Staff agree with the proposed changes in tense and will amend.

2	Canadian Institute of Chartered Accountants	Paragraphs 125(e) and 126(d): What does “reasonably possible” mean?	Phrase mirrors IAS 36 in paragraphs 134(f) and 135(e). Staff acknowledges that the term may be imprecise, but can see no public sector reason for change.
2	Canadian Institute of Chartered Accountants	<p>Implementation Guidance Example 1</p> <p>Example 1:</p> <p>Both examples A and B result in the same conclusion – the cash-generating unit is the whole plant or unit. It might be a useful contrast if one of these instead provided an illustration of when the cash-generating unit is a smaller subset than the whole. Perhaps that is the intent of B but since all of the information is about M, the contrast is not as apparent as it could be.</p> <p>Example 2:</p> <p>The example calculates value in use but not fair value less selling costs. Paragraph 35 would require a calculation of both. As this is not done, does the example assume as in paragraph 36 that the fair value less selling costs can't be calculated? If so, this assumption should be stated in the facts for the example.</p> <p>Schedule 1: Isn't the discount rate 6 % as in IG9(c) not 15% as in the table? Is this wrong or maybe some information is missing?</p> <p>Example 3:</p> <p>Some clarity is required here. The situation appears to be that competitors, who Government R thought would pose a problem and negatively impact the revenues of Government R's power plant, have closed down. Thus the <u>decrease</u> in revenues for Government R's power plant is <u>less</u> drastic than expected when the impairment loss was calculated in 20X5. IG13 says that the “increase” in revenues is “more drastic” than Government R expected. Which is right?</p>	<p>Agree. Staff will add a further example C where the cash-generating unit is smaller than the whole plant or unit.</p> <p>Agree. Staff will state this assumption explicitly.</p> <p>Agree. Staff will modify reference in IG9(c).</p> <p>Agree that wording could be improved. Will modify.</p>

3	Chartered Institute of Public Finance and Accountancy (CIPFA) (UK)	Paragraph 18: Final sentence states that the Standard applies only to assets held by the reporting entity which are recorded at cost. This seems superfluous and could be deleted.	Agree. Will delete reference to carried at cost.
6	Institute of Chartered Accountants of England and Wales (ICAEW) (UK)	<p>Paragraphs 1, 13 and 14. We noted a number of instances in which the proposed IPSAS diverged from IAS 36. For example:</p> <ul style="list-style-type: none"> (a) the objective has been changed significantly from that in IAS 36; for example, why there is no reference to the carrying amount being greater than its recoverable amount (paragraph 1); (b) the definition of impairment is significantly different from the definition of an impairment loss in IAS 36 (paragraph 13). (c) the definition of a cash-generating unit has the phrase 'from continuing use' added to it. This might be seen as a barrier to assessing value by reference to possible disposal - ie value should only be assessed on the basis of value in use rather than recoverable amount (paragraph 14). <p>We object in principle to making gratuitous changes to the source standard, and we are not clear as to the implications of these and other changes. We believe that the IPSASB should be seeking to implement current IFRS GAAP for public sector entities, without seeking to amend or gold-plate the requirements.</p>	<p>The wording of paragraph 1 (Objective) harmonizes with IPSAS 21 rather than IAS 36. Staff considers that consistency with IPSAS 21 should take priority over alignment with IAS 36. Similarly the definition of an impairment is the same as that in IPSAS 21.</p> <p>Staff agrees that the term 'from continuing use' should be deleted.</p>
6	Institute of Chartered Accountants of England and Wales (ICAEW) (UK)	Paragraph 18. We are not clear as to the implications of the reference to 'owner-occupied'. Does this exclude assets that are finance leased?	Agree. Reference is unhelpful and unnecessary. Will delete. (See also comment above by CIPFA)

6	Institute of Chartered Accountants of England and Wales (ICAEW) (UK)	Example 2, Schedule 1. There appears to be a typo in the discount rate printed in the table heading, which should it be 6% rather than 15%.	Agree. Will amend.
10	Royal Nivra	The third line in BC2 refers to IPSAS. This should be IAS.	Accept. Will amend.
10	Royal Nivra	We do not agree with the definition of a Government Business Enterprise (GBE), which includes the requirement that a GBE is controlled by a public sector entity. We are of the view that a GBE might also be controlled by more than one public sector entity e.g. a water company that is fully owned by 10 municipalities and is under common control.	Noted for future consideration. The definition of a GBE is that in the current Glossary of Defined Terms.
11	South African Accounting Standards Board	Paragraph 45 has not been included in IPSAS 21 and should form part of the consequential amendments to the Standard.	Noted for future revision of IPSAS 21.
11	South African Accounting Standards Board	Proposes amendment to example in boxed text following paragraph 82 <i>"A state bus company <u>only</u> provides services under....."</i>	Agree. Will amend.
11	South African Accounting Standards Board	The use of the term "service potential" in paragraph 106 may confuse users as this term is associated with non-cash-generating assets. We recommend that it should be deleted.	Agree. Will amend.

11	South African Accounting Standards Board	This is a repetition to a large extent of paragraph 96. The IPSASB should also consider the circumstances where an individual non-cash-generating asset may be impaired but the overall cash-generating asset to which it is allocated asset is not. Clear guidance should be given as how to account for these types of examples.	Staff accepts that the first sentence is superfluous and will delete. Staff does not think that there needs to be further guidance on circumstances where a non-cash-generating asset contributing to a CGU is impaired but, overall, the CGU is not. Paragraph 96 requires the carrying amount of such a non-cash-generating asset to reflect any impairment losses at the reporting date, determined under the requirements of IPSAS 21.
----	--	--	--