



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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**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.

Appendix A

LIST OF RESPONDENTS

1.	Association of Chartered Certified Accountants (ACCA) (UK)
2.	Canadian Institute of Chartered Accountants (Canada)
3.	Chartered Institute of Public Finance and Accountancy (CIPFA) (UK)
4.	FAR SRS (Sweden)
5.	Institut der Wirtschaftsprüfer (IDW) (Germany)
6.	Institute of Chartered Accountants of England and Wales (ICAEW) (UK)
7.	Institute of Chartered Accountants of Scotland (ICAS) (UK)
8.	Institute of Certified Public Accountants (CPAs) of Cyprus: Public Sector Committee
9.	The Japanese Institute of Certified Public Accountants (JICPA)
10	Royal Nivra (Netherlands)
11.	South African Accounting Standards Board (SAASB)
12.	United Kingdom Accounting Standards Board (UK ASB)
13.	Australian Accounting Standards Board (AASB)
14.	Office of the Comptroller General: British Columbia (Canada)
15	Heads of Treasury Accounting and Reporting Advisory Committee (HOTARAC) (Australia)
16.	Ekonomistyrningsverket (ESV) (Swedish National Financial Management Authority)
17.	Swiss Federal Office of Finance and Conference of Cantonal Ministers of Finance
18.	Australasian Council of Auditors-General
19.	Lawrens Van Wyngaardt: Development Bank of South Africa
20.	Fédération des Experts Comptables Européens (FEE
21.	Jean-Bernard Mattret (France)
22.	Joseph S. Maresca (USA)