



INTERNATIONAL FEDERATION  
OF ACCOUNTANTS

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August 26, 1997

Sir Bryan Carsberg  
Secretary General  
International Accounting Standards Committee  
167 Fleet Street  
London EC4A 2ES  
UNITED KINGDOM

Dear Bryan

**SUBMISSION ON E55, *IMPAIRMENT OF ASSETS***

Apologies for the delay in getting this submission on E55, *Impairment of Assets* to you. Attached are the comments of the International Federation of Accountants (IFAC) Public Sector Committee (PSC). The PSC's mission is to enhance the performance of the public sector by contributing to better decision making, financial management and accountability by governments. The PSC pursues its mission through the development and promotion of best practice in accounting and financial reporting, auditing and financial management.

As you are aware, the PSC currently comprises the following countries: New Zealand (Chair), Australia, Canada, Italy, Malaysia, Mexico, Sweden, Sudan, Taiwan, the United Kingdom and the United States.

The PSC's comments are framed in the context of financial reporting by public sector entities, and in particular, by government business enterprises which are subject to IASC Standards under the recommendations in the PSC's Guideline 1, *Financial Reporting by Government Business Enterprises*. However, the PSC considers that the comments are generally applicable and useful financial reporting by all types of entities.

Please contact me if you wish to discuss any of the PSC's comments on E55.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'P. Stephen Walker', is written over the typed name 'Ian Ball'.

Ian Ball  
CHAIRMAN – IFAC Public Sector Committee

**SUBMISSION TO THE  
INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE**

**ON**

**EXPOSURE DRAFT 55:  
*IMPAIRMENT OF ASSETS***

**Prepared by the  
International Federation of Accountants Public Sector Committee**

**25 August 1997**

**SUBMISSION ON THE  
INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE  
EXPOSURE DRAFT 55: *IMPAIRMENT OF ASSETS***

**INTRODUCTION**

The International Federation of Accountants (IFAC) Public Sector Committee (PSC) has considered the International Accounting Standards Committee (IASC) Exposure Draft 55 (E55), *Impairment of Assets*. The PSC comments on the specific questions raised in E55 are as follows:

**QUESTIONS RAISED**

**Measurement of Recoverable Amount**

- 1. Which of the following approaches do you support?**
- (a) the recoverable amount of an asset should be measured as the higher of its net selling price and its value in use (paragraphs 5 and 12-40 of the Exposure Draft and paragraphs 7-30 of the Basis for Conclusions)?**
- (b) the recoverable amount of an asset should be measured as the fair value of the asset, that is, the amount obtainable for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value would be primarily based on the asset's market price if a market exists for that asset regardless of the value in use of the asset. If no market exists for the asset, fair value would be estimated in a similar way to value in use as defined in the Exposure Draft (paragraphs 13-19 of the Basis for Conclusions)?**
- (c) other (please specify)?**

**1.1 *Support***

The PSC supports 1(a), the higher of net selling price and value in use. We consider that it is more readily applicable in the public sector.

Certain assets held by public sector entities may not have a readily determinable fair value because of their specialised nature. In addition, due to the not-for-profit nature of many public sector entities, the adoption of a fair value approach may lead to assets being reported as impaired when in fact they are still meeting the objectives of those entities by providing services that do not generate explicit cash flows.

**1.2 *Concerns***

Some PSC members expressed concerns that approach 1(a) may be used to avoid proper application of the impairment test and give rise to assessments of impairment that are

inconsistent and lack comparability between different entities. For example, preparers of financial reports may be able to argue that above-market rents from current tenants on a property will be sustained into the long term, even though the market value of the property has dropped in recognition of the fact that the market knows they cannot be sustained.

The disclosures proposed in paragraph 83 are viewed as being important in mitigating these concerns.

- 2. One consequence of the approach adopted in this Exposure Draft (or the alternative definition of recoverable amount based on fair value) is that present value techniques should be used to measure the recoverable amount of an asset, implicitly (net selling price) or explicitly (value in use) (paragraphs 7-9 and 11-12 of the Basis for Conclusions). Do you agree that present value techniques should be used to measure the recoverable amount of an asset, implicitly (net selling price) or explicitly (value in use)?**

- 2.1 Present value techniques should be required.

#### **Assets Held for Disposal**

- 3. Do you agree that the definition of recoverable amount in paragraph 5 of the Exposure Draft is just as applicable to an asset held for disposal as to an asset held for continuing use (paragraph 26 of the Basis for Conclusions)?**

- 3.1 The recoverable amount definition should be applied whether an asset is being held for disposal or continuing use.

#### **Recognition of Impairment Losses**

- 4. Do you agree that an impairment loss should be recognised for an asset:**
- (a) whenever the recoverable amount of the asset is less than its carrying amount (paragraph 41 of the Exposure Draft and paragraphs 59-67 of the Basis for Conclusions); and**
  - (b) only if the cash-generating unit to which the asset belongs is impaired (paragraphs 55-58 of the Exposure Draft and paragraphs 74-75 of the Basis for Conclusions)?**

**If you disagree with these proposals, please indicate criteria you would prefer for the recognition of an impairment loss in the financial statements.**

- 4.1 We agree that an impairment loss should be recognised when the recoverable amount of an asset is less than its carrying amount and the cash generating unit to which it belongs is impaired.
- 4.2 We also agree with the reasons given in the Background section (paragraphs 60-66) for rejecting the permanent impairment and probability approaches.
- 4.3 The example of cash generating units involving bus routes on page 29 of E55 is considered to be appropriate and most useful.

#### **Reversals of Impairment Losses**

**5. Do you agree that an impairment loss recognised in prior years for an asset carried on an historical cost basis should be reversed up to the depreciated historical cost of the asset if, and only if, there has been a change in the estimates used to determine the impaired asset's recoverable amount since the last impairment loss was recognised (paragraphs 70-76 of the Exposure Draft and paragraphs 83-87 of the Basis for Conclusions)?**

- 5.1 We agree that an impairment loss recognised in prior years for an asset carried at historical cost should be reversed up to the depreciated historical cost of the asset if, and only if, there has been a change in the estimates used to determine the impaired asset's recoverable amount since the last impairment loss was recognised.
- 5.2 Paragraph 73 refers to "the 'unwinding' of the discount with the passage of time", we consider that it would be useful to explain this notion by way of example.

**6. Do you agree that an impairment loss recognised for goodwill and other intangible assets for which no active market exists should be reversed in a subsequent period if, and only if, the external event that caused the recognition of the impairment loss has reversed (paragraphs 77-78 of the Exposure Draft)?**

- 6.1 We agree that an impairment loss recognised for goodwill and other intangible assets for which no active market exists should be reversed in a subsequent period if, and only if, the external event that caused the recognition has reversed.
- 6.2 Also refer to 5.2 above.

## Scope

**7. Do you agree that the Standard should apply to all assets except those listed in paragraph 1 of the Exposure Draft (paragraphs 1-4 of the Exposure Draft and paragraphs 106-110 of the Basis for Conclusions)?**

- 7.1 We agree that the Standard should apply to all assets other than those listed in paragraph 1 of the Exposure Draft.
- 7.2 We support the application of the Standard to entities in both the private sector and the public sector, including Government Business Enterprises.
- 7.2 We consider that there may be difficulties in applying the proposed requirements to entities that are subject to price regulation. Price regulation can limit the cash flows from sales by utility companies (for example, water and electricity), with these limitations being compensated by government grants or officially-sanctioned cross subsidies. It would seem unreasonable to require the entity to write down assets involved in the provision of goods and services to price-regulated markets, where the entity receives compensation for the price regulation.

## Identifying a Potentially Impaired Asset

**8. Do you agree that:**

- (a) the recoverable amount of an asset should be estimated if, and only if, there is an indication that the asset is impaired; and
- (b) the list of indicators of impairment included in paragraph 8 of the Exposure Draft will require an enterprise to estimate the recoverable amount whenever there is a significant risk that the asset is impaired?

**(paragraphs 6-12 of the Exposure Draft)**

8.1 We agree that:

- (a) the recoverable amount of an asset should be estimated if, and only if, there is an indication that the asset is impaired; and
- (b) the list of indicators at paragraph 8 of E55 will require an enterprise to estimate the recoverable amount whenever there is a significant risk that the asset is impaired.

## Net Selling Price

### **9. Do you agree that net selling price should be determined:**

- (a) based on “the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties” and that it is not necessary to determine net selling price by reference to an active market (paragraphs 5 and 17-18 of the Exposure Draft and paragraphs 31-38 of the Basis for Conclusions); and**
- (b) after deducting from the amount obtainable from the sale of an asset the incremental costs that are directly attributable to the disposal of the asset (excluding finance costs and income tax expense) (paragraphs 5 and 19-21 of the Exposure Draft and paragraph 35 of the Basis for Conclusions)?**

9.1 We agree that net selling price should be determined based on an arm’s length transaction (with or without reference to an active market) and after deducting any directly attributable disposal costs.

## Value in Use

### **10. Do you agree with the proposed requirements and guidance in the Exposure Draft for:**

- (a) the basis for estimates of future cash flows (paragraphs 23-27 of the Exposure Draft and paragraphs 24 and 40-42 of the basis for Conclusions);**
- (b) the composition of estimates of future cash flows (paragraphs 28-35 of the Exposure Draft and paragraphs 43-46 and 50-58 of the Basis for Conclusions); and**
- (c) selecting the discount rate (paragraphs 36-40 of the Exposure Draft and paragraphs 47-49 of the Basis for Conclusions)?**

10.1 The proposals and guidance appear reasonable, although there is a need to expand paragraph 30 to explain why overhead cash flows would be factored into the determination of value in use. Some readers will be more familiar with the use of present value techniques for assessing investment proposals, and would expect only to consider incremental cash flows. It would be useful to distinguish the assessment of a proposed acquisition of an asset from the assessment of the value in use of an asset already held by an entity.

10.2 We also suggest that the discussion about the discount rate, in particular the determination of pre-tax and post-tax discount rates, should be clarified by using an example. We note

that there is further discussion of the issue in the Background, some of which possibly ought to be included in the standard.

### **Cash-Generating Units**

**11. Do you agree that, if an asset does not generate cash inflows that are largely independent of those from other assets, an enterprise should determine the recoverable amount of the asset's cash-generating unit (paragraphs 46-47 of the Exposure Draft)?**

11.1 In principle, we agree:

- (a) that if an asset does not generate cash inflows that are largely independent of those from other assets, an enterprise should determine the recoverable amount of the asset's cash-generating unit;
- (b) with the requirements and guidance for determining the items included in a cash-generating unit;
- (c) with the requirement to recognise and measure an impairment loss if there exists goodwill or other corporate assets that relate to a cash-generating unit; and
- (d) with the procedures for allocating an impairment loss of a cash-generating unit between the assets of that unit.

11.2 We are however concerned that the concept of a cash-generating unit (for determining asset impairment) may be problematic in some cases:

- (a) it will be difficult for many entities to identify cash-generating units with cash flows that are not dependent on other parts operations of the entity, as a result, the cash-generating unit becomes the business; and
- (b) as noted in 4.1, in the public sector in particular, there are many assets or asset groups that do not generate cash flows to the entity that operates them, for example, road networks.

11.3 It may be useful to explicitly acknowledge that whole entities will be the cash-generating units in some cases as does the relevant standard in the United States, Statement of Financial Accounting Standards SFAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (refer to paragraph 100).



**12. Do you agree with the requirements and guidance for determining the items that are included in a cash-generating unit (paragraphs 5 and 48-53 of the Exposure Draft)?**

12.1 Refer to Question 11.

**13. Do you agree with the requirement (and related guidance) to recognise and measure an impairment loss if there exists goodwill or other corporate assets (such as head office assets) that relate to a cash-generation unit (paragraphs 59-61 of the Exposure Draft and paragraphs 79-81 of the Basis for Conclusions)?**

13.1 Refer to Question 11.

**14. Do you agree with the procedures for allocating an impairment loss of a cash-generating unit between the assets of that unit (paragraphs 62-65 of the Exposure Draft and paragraphs 77-78 of the Basis for Conclusions)?**

14.1 Refer to Question 11.

#### **Disclosure**

**15. Do you agree with the disclosure requirements in paragraphs 79-81 of the Exposure Draft and that an enterprise should not be required to disclose more information, such as the amount of impairment losses that can be reversed in subsequent periods (paragraphs 88-92 of the Basis for Conclusions)?**

15.1 We agree with the disclosure proposals. We note that they are extensive and commend the IASC for undertaking to have them field tested before finalising a standard. In particular, the proposed disclosures in paragraph 85 will benefit from field-testing.

**16. Do you agree with the disclosure requirements in paragraph 82 of the Exposure Draft and that an enterprise should not be required to disclose for each individual asset (or cash-generating unit) for which significant impairment losses have been recognised or reversed during the period:**

- (a) the value in use of the asset (cash-generating unit) if the recoverable amount is based on the net selling price of the asset (cash-generating unit);**
- (b) the net selling price of the asset (cash-generating unit) if the recoverable amount is based on the value in use of the asset (cash-generating unit);**
- (c) if the recoverable amount is based on the value in use of the asset (cash-generating unit):**
  - (i) the discount rate(s) used in the calculation; and**
  - (ii) the assumed long-term average growth rate for the products, industries, and country or countries in which the enterprise operates or for the market in which the asset (cash-generating unit) is used; and**

**(a) other key assumptions used to determine the recoverable amount of an asset.**

**(paragraphs 24, 93-95 and 98-99 of the Basis for Conclusions)?**

16.1 Refer to Question 15.

**17. Do you agree with the disclosure requirements in paragraphs 83-84 of the Exposure Draft and that an enterprise should not be required to disclose information similar to that proposed in question 16 above for each individual asset (cash-generating unit) for which:**

- (b) Recoverable amount has been determined during the period;**
- (c) No impairment loss was recognised or reversed during the period; and**
- (d) A small change in key assumptions could lead to the recognition or reversal of a significant impairment loss?**

**(paragraphs 24 and 96-97 of the Basis for Conclusions)?**

17.1 Refer to Question 15.

**18. Do you agree with the disclosure requirements in paragraphs 85 of the Exposure Draft (paragraphs 24 and 100-101 of the Basis for Conclusions)?**

18.1 Refer to Question 15.

**19. Do you agree that an enterprise should not be required to give information on how cash-generating units are determined (paragraphs 102-105 of the Basis for Conclusions)? If you believe that such information should be required, please indicate which details should be required.**

19.1 Refer to Question 15.

**20. Should an enterprise be required to disclose any information other than that discussed in questions 15-19 in this Invitation to Comment?**

20.1 Refer to Question 15.

## **Appendices**

**21. Should any material in Appendix 1 be amended or deleted? Should any further guidance be added to the appendix? (Note: the Board does not intend to publish appendix 3, Basis for Conclusions, with the final Standard.)**

21.1 The Appendix material is useful and should remain.

**22. Do you agree with the consequential changes to IAS 16, Property, Plant and Equipment (Appendix 2, Proposed Amendments to Other International Accounting Standards)?**

22.1 The proposed amendments to IAS 16 "Property, Plant and Equipment" appear consistent with the IASC's approach of dealing with the impairment of assets in a separate International Accounting Standard.

## **Other Comments**

**23. Do you have any other comments on the proposed International Accounting Standard?**

23.1 We consider that the worked examples used throughout E55 are most helpful.