

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Toronto, Canada

**Meeting Date:** September 22-25, 2015

## Agenda Item 4

For:

Approval

Discussion

Information

### Impairment of Revalued Assets

**Objective(s) of Agenda Item**

1. The objective is to approve ED 57, *Impairment of Revalued Assets*

**Materials Presented**

Agenda Item 4.1	Issues Paper – Impairment of Revalued Assets
Agenda Item 4.2	ED 57, <i>Impairment of Revalued Assets</i>

**Action(s) Requested**

**Discuss** the issues related to the scope exclusion of the impairment of revalued assets from IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*, and **approve** ED 57, *Impairment of Revalued Assets*.

## **Issues Paper – Scope Exclusions from IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets***

### **Introduction**

1. At its June 2015 meeting the IPSASB approved a two phase project on Public Sector Measurement. The IPSASB considered including an analysis of the scope exclusion of assets on the revaluation model in IPSAS 17, *Property, Plant and Equipment*, and IPSAS 31, *Intangible Assets*, from IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets* as part of the Public Sector Measurement project. There was also brief consideration of including proposed amendments in the enhanced Improvements project.
2. There were concerns that, given the timetable for the Public Sector Measurement project, changes to IPSAS 21 and 26 might not be published until 2019, or later, if addressed in that project. It was considered that the project is too technically significant for the Improvements project. Consequently, the IPSASB decided to address the scope exclusion in a separate stand-alone project.

### **Background and Rationale for Scope Exclusions**

3. IPSAS 21 was issued in December 2004. IPSAS 21.3 provides scope exclusions for a number of assets, including:
  - Investment property that is measured using the fair value model;
  - Non-cash generating property, plant and equipment that is measured at revalued amounts; and
  - Non-cash-generating intangible assets that are measured at revalued amounts.
4. IPSAS 21 refers users to IPSASs 16, 17 and 31 for further details on the assets that are subject to these exclusions. This Issues Paper does not address the scope exclusion of investment property and does not propose that investment property is brought within the scope of IPSAS 26. Staff notes that currently investment property is not within the scope of IAS 36, *Impairment of Assets*.
5. IPSAS 21 is a public sector specific standard, but is drawn to a considerable extent from the 2004 version of IAS 36. The Comparison with IAS 36 (2004) states that “IPSAS 21 does not apply to non-cash-generating assets carried at revalued amounts at the reporting date under the allowed alternative treatment of IPSAS 17. IAS 36 does not exclude from its scope cash-generating property, plant and equipment carried at revalued amounts at the reporting date.” At the time of its publication IPSASB did not have an IPSAS on intangible assets and the Comparison with IAS 36 does not refer to the impairment of intangibles.
6. Paragraphs BC 17-19 provide the rationale for IPSAS 21 not requiring the application of an impairment test to non-cash-generating assets carried at revalued amounts under the allowed alternative treatment in IPSAS 17 and IPSAS 31, *Intangible Assets*. The IPSASB took the view that” under the allowed alternative treatment (“revaluation model”) in IPSAS 17 and IPSAS 31, 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 as at the reporting date, and any impairment will be taken into account in the valuation. Therefore, any difference between the asset’s carrying amount and its fair value less

costs to sell will be the disposal costs. The IPSASB is of the view that, in most cases, these will not be material and, from a practical viewpoint, it is not necessary to measure an asset's recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset."

7. Paragraphs BC19 and BC20 further explained the differences between IPSAS 21 and IAS 36 by reference to (a) the different methods of determining recoverable service amount under IPSAS 21 and of determining recoverable amount under IAS 36 and (b) because the requirement in IAS 36 to combine non-cash-generating assets with cash-generating assets to form a cash generating unit was not replicated in IPSAS 21.
8. At the time of IPSAS 21's development some IPSASB members from jurisdictions with accounting policies to measure operational assets at current values expressed some reservations about the scope exclusion, suggesting that, in principle, impairments differ from revaluations and that the two processes should not be conflated. However, on balance, the IPSASB decided that it was onerous to require entities to test separately for impairment and the scope exclusion was approved
9. IPSAS 26 replicated the scope exclusion in IPSAS 21. The Basis for Conclusions of IPSAS 26 reiterated much of the rationale in IPSAS 21. Paragraph BC6 of IPSAS 26 acknowledged that "for specialized cash-generating assets where fair value has not been derived from market value, IAS 36 requires recoverability to be estimated through the value in use. Because value in use is based on cash flow projection, it might be greater or lower than carrying amount" While it was acknowledged that this analysis is also relevant in the public sector it concluded that it was questionable whether public sector entities hold specialized cash-generating assets.
10. Notwithstanding the above points, the main reason for the scope exclusion was a view that it would have been inconsistent to apply testing for impairment to cash-generating assets carried at revalued amounts when there were no requirements for impairment testing for non-cash-generating assets.

### **Consequences of Scope Exclusion**

11. Earlier in 2015 IPSASB staff received representations on this and a number of other issues from a standard setter in a jurisdiction where public sector entities have an accounting policy of subsequent measurement of property, plant and equipment and intangible assets at revalued amounts. The standard setter noted that this issue had been raised by constituents, including preparers.
12. This standard setter highlighted ambiguity over the consequences of impairments noting that "where an item of revalued property, plant and equipment is damaged (for example, in a fire) or no longer available for use (for example, as a consequence of the enactment of legislation), there is some uncertainty about the requirements relating to recognition of an impairment loss. The issue is whether the entire class of assets needs to be revalued when the impairment loss on the damaged/unusable property, plant and equipment is recognised." Currently IPSAS 17.51 states that "if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued."
13. The representation proposed amending IPSAS 17 to clarify that when an impairment loss is recognized in respect of an item of revalued property, plant and equipment, there is no requirement to revalue the entire class of property, plant and equipment to which that impaired asset belongs.

## Staff View and Proposal

14. Staff agrees that there is an ambiguity. The IPSASB literature acknowledges that impairments can arise for property, plant and equipment on a revaluation model. For example, in providing guidance on why IPSAS 21 does not require the application of an impairment test to non-cash-generating assets that are carried at revalued amounts under the allowed alternative treatment in IPSAS 17, IPSAS 21.11 states that “any impairment will be taken into account in the valuation.”
15. While Staff considers that the technical points in the Bases for Conclusions in IPSAS 21 and IPSAS 26 are substantially robust, Staff is of the view that impairments are analytically distinct from revaluations and that it is in the interests of users to be informed of the amounts recognized or reversed in respect of impairments and the other quantitative and qualitative information that is provided to users in the disclosure sections of IPSAS 21 and IPSAS 26. A practical issue is that it is unclear what proportion of a change in value of a revalued asset relates to impairment unless an asset is tested for impairment.
16. Staff therefore considers that rather than just amending IPSAS 17 to state that impairment losses and reversals of impairment losses are not revaluations a more fundamental change is required. Staff therefore proposes that property, plant and equipment and intangible assets on the revaluation model are brought within the scope of IPSAS 21 and IPSAS 26. Agenda Item 4.2 is an Exposure Draft of amendments to IPSAS 21 and IPSAS 26. There are also minor consequential amendments to IPSAS 17 and IPSAS 31. Paragraph 55A has been added to IPSAS 17 to clarify that impairment losses and reversals of impairment losses under IPSAS 21 and IPSAS 26, *Impairment of Cash-Generating Assets*, are not revaluations. IPSAS 31. 110, has been amended so that the discussion of impairment in that paragraph is not limited to intangible assets measured under the cost model.

### Matter(s) for Consideration

1. The IPSASB is asked to **confirm**:
  - The proposed amendments to IPSAS 21 and IPSAS 26 to bring property, plant and equipment and intangible assets within their scope; and
  - Consequential amendments to IPSAS 17 and IPSAS 31; or provide alternative directions.

## Exposure Period

17. The normal exposure period for draft IPSASB pronouncements is four months. Although the subject of ED 57 is quite complex, it is also very specific. Staff therefore considers that a consultation period of three months is appropriate.

### Matter(s) for Consideration

2. The IPSASB is asked to **confirm** a consultation period of three months or provide alternative directions.

## Exposure Draft 57

[October 2015]

*Comments due: February 15 2016]*

*Proposed International Public Sector Accounting  
Standard*

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# Impairment of Revalued Assets

**IPSASB**

International Public  
Sector Accounting  
Standards Board™

This Exposure Draft 57, *Impairment of Revalued Assets*, was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB sets International Public Sector Accounting Standards (IPSASs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies. A key part of the IPSASB's strategy is to converge the IPSASs, to the extent appropriate, with the IFRSs issued by the IASB.

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening transparency and accountability of public sector finances.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

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## REQUEST FOR COMMENTS

This Exposure Draft, *Impairment of Revalued Assets*, was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by February 15, 2015].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: [www.ipsasb.org](http://www.ipsasb.org). The approved text is published in the English language.

### Objective of the Exposure Draft

The objective of this ED is to amend IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*, to include property, plant and equipment and intangible assets measured at revalued amounts within the scope of IPSAS 21 and IPSAS 26.

### Guide for Respondents

The IPSASB welcomes comments on all the changes proposed to IPSASs 21 and 26. The ED highlights one specific matter for comment, which is provided below to facilitate the comments. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and include reasons for agreeing or disagreeing. If you disagree, please provide alternative proposals.

### Specific Matter for Comment

The IPSASB proposes to include revalued property, plant and equipment and intangible assets within the scope of IPSAS 21 and IPSAS 26 in order to (a) provide information to users on impairment losses and reversals to property, plant and equipment and intangible assets carried at revalued amounts and (b) clarify that when a revalued item is impaired, an entity is not required to revalue the entire class of assets in order to recognize an impairment loss on that revalued item.

Do you agree with the changes to IPSASs 21 and IPSAS 26 proposed in the ED and the consequential amendments to IPSAS 17 and IPSAS 31? If not, please provide your reasons.

# IMPAIRMENT OF REVALUED ASSETS (ED XX)

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## Objective

1. The objective of this Exposure Draft is to propose amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Non-Cash-Generating Assets*, so that assets measured at revalued amounts under the allowed alternative model (“revaluation model”) in IPSAS 17, *Property, Plant and Equipment*, and IPSAS 31, *Intangible Assets*, are within the scope of IPSAS 21 and IPSAS 26.
2. As a result of the proposals, an entity would be required to assess at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, the entity would then be required to assess the recoverable service amount (non-cash-generating asset) or recoverable amount (cash-generating asset) of that asset and recognize an impairment loss.
3. However, where an impairment loss is recognized for an asset that is revalued, an entity would not be required to revalue the entire class of asset to which that impaired asset belongs as required by IPSAS 17.

## Amendments to IPSAS 21, Impairment of Non-Cash-Generating Assets

Paragraphs 2, 54, 69 and 73 are amended and paragraphs 54A, 69A and 82C are added. New text is underlined and deleted text is struck through.

### Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for impairment of non-cash-generating assets, except:
- (a) ...
  - (d) Investment property that is measured using the fair value model (see IPSAS 16, *Investment Property*); and
  - (e) ~~[Deleted]Non-cash-generating property, plant, and equipment that is measured at revalued amounts (see IPSAS 17, *Property, Plant, and Equipment*);~~
  - (f) ~~[Deleted]Non-cash-generating intangible assets that are measured at revalued amounts (see IPSAS 31, *Intangible Assets*); and~~
  - (g) Other assets in respect of which accounting requirements for impairment are included in another IPSAS.

...

### Recognizing and Measuring an Impairment Loss

...

54. An impairment loss shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in IPSAS 17 and IPSAS 31). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.
- 54A. An impairment loss on a non-revalued asset is recognized in surplus or deficit. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that class of asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for that class of asset.

...

### Reversing an Impairment Loss

...

69. A reversal of an impairment loss for an asset shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the revaluation model in IPSAS 17). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.

69A. A reversal of an impairment loss on a revalued asset is recognized directly in the revaluation reserve and increases the revaluation surplus for that class of asset. However, to the extent that an impairment loss on the same class of revalued asset was previously recognized in surplus or deficit, a reversal of that impairment loss is also recognized in surplus or deficit.

...

## Disclosure

...

73. **An entity shall disclose the following for each class of assets:**

- (a) **The amount of impairment losses recognized in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are included.**
- (b) **The amount of reversals of impairment losses recognized in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are reversed.**
- (c) **The amount of impairment losses on revalued assets recognized directly in revaluation surplus during the period.**
- (d) **The amount of reversals of impairment losses on revalued assets recognized directly in revaluation surplus during the period.**

...

## Effective Date

...

82C. **Impairment of Revalued Assets (Amendments to IPSASs 21 and 26) amended paragraphs 2, 54, 69 and 73 and added paragraphs 54A and 69A. An entity shall apply those amendments for annual financial statements covering periods beginning on or after [date]. Earlier application is encouraged. If an entity applies those amendments for a period beginning before [date], it shall disclose that fact.**

## Basis for Conclusions

Paragraphs BC17 and BC18 are amended and paragraphs BC20A to BC20E are added.

Paragraphs BC19 and BC20 are not amended but are provided for context. New text is underlined and deleted text is struck through.

### Property, Plant and Equipment and Intangible Assets

BC17. At the time this The Standard was approved in December 2004, it diddoes not require the application of an impairment test to non-cash-generating assets that are carried at revalued amounts under the allowed alternative treatment ("revaluation model") in IPSAS 17 and IPSAS 31. The IPSASB wasis of the view that under the allowed alternative treatment in IPSAS 17 and IPSAS 31, assets wouldwill be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value as at the

reporting date, and any impairment ~~would~~ will be taken into account in the valuation. Therefore any difference between the asset's carrying amount and its fair value less costs to sell ~~would~~ will be the disposal costs. The IPSASB ~~was~~ is of the view that, in most cases, these ~~would~~ will not be material and, from a practical viewpoint, it is not necessary to measure an asset's recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset.

- BC18. In contrast to this approach, IAS 36 requires entities to test revalued assets for impairment after they ~~have~~ been revalued. The rationale for this difference was explained by reference to the factors set out in paragraphs BC19 and BC20 below.
- BC19. Firstly, there are different methods of determining recoverable service amount under this Standard, and of determining recoverable amount under IAS 36. Recoverable service amount is defined in this Standard as the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. Under this Standard, an entity determines an asset's value in use by determining the current cost to replace the asset's remaining service potential. The current cost to replace the asset's remaining service potential is determined using the depreciated replacement cost approach, and approaches described as the restoration cost approach and the service units approach. These approaches may also be adopted to measure fair value under IPSAS 17 and IPSAS 31 therefore the value in use is a measure of fair value. Recoverable amount is defined in IAS 36 as the higher of an asset's fair value less costs to sell and its value in use. Value in use under IAS 36 is determined using the present value of the cash flows expected to be derived from continued use of the asset and its eventual disposal. IAS 36 states that the value in use may be different from the fair value of the asset.
- BC20. Secondly, the requirement under IAS 36 to combine non-cash-generating assets with cash-generating assets to form a cash-generating unit is not replicated in this Standard. Under IAS 36, where an asset does not produce cash inflows, it is combined with other assets to form a cash-generating unit, the value in use of which is then measured. The sum of the fair values of the assets that make up a cash-generating unit may be different to the value in use of the cash-generating unit.

#### **Impairment of Revalued Assets (Amendments to IPSAS 21 and IPSAS 26)**

BC20A. As a consequence of requests from jurisdictions that apply IPSASs, the IPSASB revisited the original decision to exclude revalued property, plant and equipment and intangible assets from the scope of IPSAS 21.

BC20B. The IPSASB considers that the rationale in paragraphs BC19 and BC20 for the different requirements in IPSAS 21 and IAS 36 are sound. However, the IPSASB is of the view that impairments are conceptually different from revaluations and that assets carried at revalued amounts can experience impairments. The IPSASB considered it important that users are provided with quantitative and qualitative information on impairments specified in paragraphs 77 and 78 of IPSAS 21.

BC20C The IPSASB also acknowledged that it was ambiguous whether impairment losses and reversals are revaluations. Paragraph 51 of IPSAS 17 requires an entire class of assets to be revalued if an item of property, plant and equipment belonging to that class is revalued. Therefore, if impairment losses and reversals of impairment losses are interpreted as revaluations the consequences are onerous. The IPSASB considered that it should resolve this ambiguity.

BC20D. The IPSASB has, therefore, decided to include property, plant and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 21. As a consequence, where a revalued asset is impaired (for example, as a consequence of a natural disaster) an entity is not required to revalue the entire class of asset to which that item belongs in order to recognize an impairment loss in respect of that item.

BC20E. Although this means that an entity is required to assess annually whether there is any indication that an asset may be impaired, it is likely that an entity will be aware of any indicators of impairment in the normal course of its operations. The IPSASB therefore concluded that bringing property, plant and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 21 will not be overly onerous for the preparers of financial statements.

## Amendments to IPSAS 26, *Impairment of Cash-Generating Assets*

Paragraphs 2, 73, 108, 115 and 124 are amended and paragraphs 73A, 108A and 126D are added. New text is underlined and deleted text is struck through.

### Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for the impairment of cash-generating assets, except for:
  - (a) ...
  - (e)  ~~[Deleted]Cash-generating property, plant, and equipment that is measured at revalued amounts (see IPSAS 17, *Property, Plant, and Equipment*);~~
  - (f) ...
  - (h)  ~~[Deleted]Cash-generating intangible assets that are measured at revalued amounts (see IPSAS 31, *Intangible Assets*);~~
  - (i) Goodwill;
  - (j) ...

...

### Recognizing and Measuring an Impairment Loss

...

73. An impairment loss shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in IPSAS 17 and IPSAS 31). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.
- 73A. An impairment loss on a non-revalued asset is recognized in surplus or deficit. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that class of asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for that class of asset.

...

### Reversing an Impairment Loss for an Individual Asset

106. ...
108. A reversal of an impairment loss for an asset shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the revaluation model in IPSAS 17). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.

108A. A reversal of an impairment loss on a revalued asset is recognized directly in the revaluation reserve and increases the revaluation surplus for that class of asset. However, to the extent that an impairment loss on the same class of revalued asset was previously recognized in surplus or deficit, a reversal of that impairment loss is also recognized in surplus or deficit.

...

## Disclosure

...

115. An entity shall disclose the following for each class of assets:

- (a) The amount of impairment losses recognized in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are included;
- (b) The amount of reversals of impairment losses recognized in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses are reversed;
- (c) The amount of impairment losses on revalued assets recognized directly in revaluation surplus during the period; and
- (d) The amount of reversals of impairment losses on revalued assets recognized directly in revaluation surplus during the period.

...

124. If some or all of the carrying amount of intangible assets with indefinite useful lives is allocated across multiple cash-generating units, and the amount so allocated to each unit is not significant in comparison with the entity's total carrying amount of intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units. In addition, if ~~(a)~~ the recoverable amounts of any of those units are based on the same key assumption(s), and ~~(b)~~ the aggregate carrying amount of intangible assets with indefinite useful lives ...

...

## Effective Date

...

126D. *Impairment of Revalued Assets* (Amendments to IPSASs 21 and 26) amended paragraphs 2, 73, 108, 115 and 124 and added paragraphs 73A and 108A. An entity shall apply those amendments for annual financial statements covering periods beginning on or after [date]. Earlier application is encouraged. If an entity applies those amendments for a period beginning before [date], it shall disclose that fact.

## Basis for Conclusions

Paragraphs BC4 and BC7 are amended and paragraphs BC7A to BC7E are added. Paragraphs BC5 and BC6 are not amended but are provided for context. New text is underlined and deleted text is struck through.

*Exclusion of Property, Plant, and Equipment Carried at Revalued Amounts and Intangible Assets that are Regularly Revalued to Fair Value from Scope*

- BC4. At the time this Standard was approved in February 2008, ~~the~~ scope of IPSAS 21 excluded ~~s~~ non-cash-generating property, plant, and equipment carried at revalued amounts in accordance with the revaluation model in IPSAS 17. The Basis for Conclusions in IPSAS 21 ~~stated~~ that the IPSASB was ~~is~~ of the view that assets carried at revalued amounts in accordance with the revaluation model in IPSAS 17 would ~~will~~ be revalued with sufficient regularity to ensure (a) that they are carried at an amount that is not materially different from their fair value at the reporting date, and (b) that any impairment will be taken into account in that valuation. The IPSASB therefore considered whether a similar scope exclusion should be included in this Standard.
- BC5. The IPSASB acknowledged that property, plant, and equipment held on the revaluation model are within the scope of IAS 36, and considered the view that guidance on determining impairment losses for such assets would be appropriate for public sector entities with assets on the revaluation model. The IPSASB noted that in IAS 36, in cases where the fair value of an item of property, plant and equipment is its market value, the maximum amount of an impairment loss is the disposal costs. In the Basis for Conclusions for IPSAS 21, it is stated that “the IPSASB is of the view that, in most cases, these will not be material and, from a practical viewpoint, it is not necessary to measure an asset’s recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset.” The IPSASB considered that disposal costs are also unlikely to be material for cash-generating assets.
- BC6. For specialized cash-generating assets where fair value has not been derived from market value, IAS 36 requires recoverability to be estimated through the value in use. Because value in use is based on cash flow projection, it might be materially greater or lower than carrying amount. This analysis is also relevant in the public sector. However, it is questionable whether public sector entities hold specialized assets that meet the definition of a cash-generating asset in this Standard.
- BC7. The IPSASB ~~was~~ remains of the view that it would be onerous to impose a requirement to test for impairment in addition to the existing requirement in IPSAS 17, i.e., that 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. Therefore, on balance, the IPSASB concluded that consistency with IPSAS 21 should take precedence over convergence with IAS 36, and that property, plant and equipment carried on the revaluation model in IPSAS 17 should be excluded from the scope of this Standard. Consistent with the approach to property, plant, and equipment, intangible assets that are regularly revalued to fair value were ~~are~~ also excluded from the scope.

## **Impairment of Revalued Assets (Amendments to IPSAS 21 and IPSAS 26)**

- BC7A. As a consequence of requests from jurisdictions that apply IPSASs, the IPSASB revisited the original decision to exclude revalued property, plant and equipment and intangible assets from the scope of IPSAS 26.
- BC7B. The IPSASB considers that the rationale in paragraphs BC5 and BC6 for the different requirements in IPSAS 26 and IAS 36 is sound. However, the IPSASB is of the view that impairments are conceptually different from revaluations and that assets carried at revalued amounts can experience impairments. The IPSASB considered it important that users are

provided with the quantitative and qualitative information on impairments specified in paragraphs 120 and 121 of IPSAS 26.

- BC7C. The IPSASB also acknowledged that it was ambiguous whether impairment losses and reversals are revaluations. Paragraph 51 of IPSAS 17 requires the entire class of assets to be revalued if an item of property, plant and equipment belonging to that class is revalued. Therefore, if impairment losses and reversals are interpreted as revaluations the consequences are onerous. The IPSASB considered that it should resolve this ambiguity.
- BC7D. Consistent with the scope of IPSAS 21, the IPSASB has decided to include property, plant and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 26. As a consequence, where a revalued asset is impaired (for example, as a consequence of a natural disaster) an entity is not required to revalue the entire class of asset to which that item belongs in order to recognize an impairment loss in respect of that item.
- BC7E. Although this means that an entity is required to assess annually whether there is any indication that an asset may be impaired, it is likely that an entity will be aware of any indicators of impairment in the normal course of its operations. The IPSASB therefore concluded that bringing property, plant and equipment and intangible assets that are measured at revalued amounts within the scope of IPSAS 26 will not be overly onerous for the preparers of financial statements.

## Consequential Amendments to Other IPSASs

### Amendment to IPSAS 17, *Property, Plant and Equipment*

Paragraphs 55A and 108B are added. Paragraphs 54 and 55 are not amended but are provided for context. New text is underlined.

...

54. **If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.**
55. **If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.**

55A. Impairment losses and reversals of impairment losses under IPSAS 21 and IPSAS 26, *Impairment of Cash-Generating Assets*, are not revaluations.

...

### Effective Date

...

107E. ***Impairment of Revalued Assets (Amendments to IPSASs 21 and 26)* added paragraph 55A. An entity shall apply that amendment for annual financial statements covering periods beginning on or after [date]. Earlier application is encouraged. If an entity applies that amendment for a period beginning before [date], it shall disclose that fact.**

### Basis for Conclusions

Paragraph BC10 is added.

#### **Impairment of Revalued Assets (Amendments to IPSAS 21 and IPSAS 26)**

BC10. As a consequence of amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*, the IPSASB decided to add paragraph 55A to clarify that the recognition of impairment losses and reversals of impairment losses are not revaluations.

## **Amendment to IPSAS 31, *Intangible Assets***

Paragraph 110 is amended and paragraph 133B is added. New text is underlined and deleted text is struck through.

### **Recoverability of the Carrying Amount—Impairment Losses**

110. To determine whether an intangible asset ~~measured under the cost method~~ is impaired, an entity applies either IPSAS 21 or IPSAS 26, as appropriate. ...

...

### **Effective Date**

...

132B. *Impairment of Revalued Assets (Amendments to IPSASs 21 and 26) amended paragraph 110. An entity shall apply that amendment for annual financial statements covering periods beginning on or after [date]. Earlier application is encouraged. If an entity applies that amendment for a period beginning before [date], it shall disclose that fact.*

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