THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

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Our ref: ICAEW Rep

Desmond Wagner

Your ref:

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THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

ICAEW Representation

ICAEW REP 09/07

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD
ED 30 IMPAIRMENT OF CASH-GENERATING ASSETS

Memorandum of comment submitted in February 2007 by The Institute of Chartered Accountants in England and Wales, in response to Exposure Draft 30 'Impairment of Cash-generating Assets', published by the International Public Sector Accounting Standards Board in October 2006.

Chartered Accountants' Hall
PO Box 433 Moorgate Place London EC2P 2BJ
www.icaew.com

T +44 (0)20 7920 8100
F +44 (0)20 7920 0547
DX DX 877 London/City

INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the 'Institute') welcomes the opportunity to comment on Exposure Draft 30 'Impairment of Cash-generating Assets', published by the International Public Sector Accounting Standards Board in November 2006.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 128,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.

3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The ICAEW ensures these skills are constantly developed, recognised and valued.

MAJOR POINTS

Overall response

4. We agree that entities with cash-generating assets (or with assets that share cash-generating and non-cash-generating characteristics) need guidance on how to recognise and measure losses arising from impairment of such assets and on related disclosures. We agree with the IPSASB that the majority of assets in the public sector are non-cash generating. Certainly, from a UK perspective the eventual standard is unlikely to be widely applicable. We therefore question whether a separate standard is preferable to an amendment to IPSAS 21.

5. We believe that a primary objective of the IPSASB in developing IPSAS should be to bring public sector accounting into line with International Financial Reporting Standards. As a principle, therefore, applying current IFRS to the public sector is more important than trying to improve or amend IFRS where they are considered to be faulty or difficult to apply in the public sector. We are therefore disappointed that IPSAS 21 and this ED do not deal with revalued assets (see paragraph 6 below).

SPECIFIC QUESTIONS

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.

6. We have previously expressed concern that ED 23 *Impairment of assets* 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 ED30. 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.

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.

7. We 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.

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?

8. We are 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 - ie, 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.

9. Overall, we are not convinced that the additional effort involved in applying the ED is justified. We note that the IPSASB itself concedes, in paragraph 21 that 'given the overall objectives of most public sector entities, other than GBEs, the presumption is that assets are non-cash generating'. Indeed, we have some difficulty in conceiving of an asset coming within the scope of the ED that would not be held by a Government Business Enterprise (GBE). The implication is that the resultant ED will rarely be applicable in practice. It might therefore have been preferable to amend IPSAS 21 rather than risk over-emphasising the importance of cash-generating assets by dealing with them in a separate standard.

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.

10. We 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.

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.

10. 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.

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.

11. 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.

OTHER MATTERS

12. Paragraphs 1, 13 and 14. We noted a number of instances in which the proposed IPSAS diverged from IAS 36. For example:

(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).

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.

13. Paragraph 18. We are not clear as to the implications of the reference to 'owner-occupied'. Does this exclude assets that are finance leased?

14 Paragraph 114. 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. 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 redesignation.

15. 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%.

16. BC 3. 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 allocated to the other assets?

desmond.wright@icaew.com