ICAEW REPRESENTATION
05/2016

Exposure Draft 57 – Impairment of Revalued Assets

ICAEW welcomes the opportunity to comment on the *Impairment of Revalued Assets* exposure draft published by the International Public Sector Accounting Standards Board (IPSASB) in October 2015, a copy of which is available from this link.

This response of 12 January 2016 has been prepared on behalf of ICAEW by the Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. Comments on public sector financial reporting are prepared with the assistance of the Faculty's Public Sector Development Committee. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

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MAJOR POINTS

Support for the exposure draft

1. We welcome the opportunity to comment on IPSASB’s exposure draft (ED) on *Impairment of Revalued Assets*. We broadly support the proposals as they further align IPSASs with IFRSs and allow preparers to impair an asset without having to revalue to the entire class of asset, an important change which we think is overdue.

Transparency and stewardship

2. In general, we support alignment between IPSASs and IFRSs. However, in this case, IPSASB should consider the benefits – in terms of stewardship and transparency – of adopting the old UK model of reporting impairments (which prevailed under FRS 15) thus adapting IAS 36 for the public sector. At present under IPSAS 21.54 and 26.73, the recognition of an impairment loss of a revalued asset is treated as a revaluation decrease to the extent the impairment loss does not exceed the amount in the revaluation surplus for that class of asset. Instead we suggest this approach should be amended such that only those impairment losses that do not result from a clear consumption of economic benefit or a reduction in service potential (including as a result of loss or damage resulting from normal business operations) are taken to the revaluation reserve. Impairment losses that arise from a clear consumption of economic benefits would be charged to operating expenses with a compensating transfer from the revaluation reserve to the income and expenditure reserve of an amount equal to the lower of (i) the impairment charged to operating expenses; and (ii) the balance in the revaluation reserve attributable to that asset before the impairment. We believe this accounting approach leads to greater transparency and promotes accountability for the loss of service potential.

RESPONSES TO QUESTIONS

Do you agree with the changes to IPSAS 21 and IPSAS 26 proposed in the ED and the consequential amendments to IPSAS 17, *Property, Plant and Equipment*, and IPSAS 31, *Intangible Assets*? If not, please provide your reasons.

3. We agree with the changes proposed in the ED for the following reasons:

    a) The promotion of further alignment between IPSASs and IFRSs;
    b) Impairment of revalued property, plant and equipment and intangible assets can now be carried out in isolation, without having to revalue the entire class of asses, thus reducing unnecessary burdens on preparers;
    c) Affirmation that impairments are different from revaluations and that revalued assets can experience impairments.

    We do acknowledge, however, that preparers will now have to assess at the end of each reporting period whether there is any indication that an asset may be impaired, in line with those entities following IFRS.

4. Preparers would, in our view, benefit from the inclusion in the implementation guidance of some examples of what type of events would cause a downward valuation and what would cause an impairment. Such examples should however be restricted to illuminating the main principles of the standard

5. Finally, IPSASB should also consider issuing guidance on the factors that can lead to the depreciated replacement cost (DRC) of specialised assets being significantly lower than their initial cost due to the methodologies used in arriving at the DRC rather than there being an actual impairment.