XRB EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

21 December 2015

Mr John Stanford
Acting Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario M5V 3H2
CANADA

Submitted to: www.ifac.org

Dear John

ED 57 *Impairment of Revalued Assets*

Thank you for the opportunity to comment on ED 57 *Impairment of Revalued Assets* (ED 57). ED 57 was published for comment in New Zealand and some New Zealand constituents may have made comments directly to you.

As you are aware, we wrote to the IPSASB in June 2015 and highlighted some issues that had been raised with us by constituents implementing New Zealand PBE Standards (which are based on IPSASs).

One of the issues raised was where the revaluation model in IPSAS 17 *Property, Plant and Equipment* is applied to a class of assets and an event occurs (for example, a fire or earthquake) that damages one asset in that class. Sometimes such events are addressed through the regular revaluation of the assets within that class, but they also occur between revaluation cycles. Currently IPSAS 17 paragraph 51 requires that if an item of property, plant and equipment is revalued, the entire class of assets to which that item belongs be revalued.

The NZASB suggested that it would be helpful to amend IPSAS 17 to clarify that when an impairment loss is recognised 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 item belongs.

We would like to thank you for your prompt response in considering this issue and developing the proposals in ED 57. We understand that the proposals in ED 57 to amend the IPSASB's impairment standards were based on the equivalent requirements in IFRS.

After some reflection on the matters that have influenced the development of IPSASs 17, 21 and 26, we think that the proposals to include revalued property, plant and equipment and intangible assets within the scope of IPSAS 21 *Impairment of Non-Cash-Generating Assets* and IPSAS 26 *Impairment of Cash-Generating Assets* are not the best way of addressing the issue we raised.

Our reasons for not supporting the proposals in ED 57 are:

(a) The original rationale for excluding revalued assets from the scope of the impairment standards is sound;

(b) We disagree with the statement in the proposed Basis for Conclusions on IPSAS 21 and IPSAS 26 that "impairments are conceptually different from revaluations";

(c) The difficulty of distinguishing between revaluations and impairments to meet the additional disclosure requirements proposed in IPSASs 21 and 26; and

(d) The proposed amendments create a risk of pre-judging the outcome of the IPSASB project on Public Sector Measurement.

We discuss these points in more detail under the specific matter for comment in Appendix A of this letter.

In our view, the best way to address the issue would be to make an amendment to IPSAS 17 only. Appendix A to the letter contains the proposed wording for such an amendment. If the IPSASB does not wish to make the amendment to IPSAS 17 only, in our view, no amendments should be made to the Standards at this stage, and the IPSASB should wait for the Public Sector Measurement project to be completed.

If you have any questions or require clarification of any matters in this submission, please contact Lisa Kelsey (lisa.kelsey@xrb.govt.nz) or me.

Yours sincerely

Kimberley Crook
Chair – New Zealand Accounting Standards Board

Appendix A

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 asset is impaired and an impairment loss is recognized, an entity is not required to revalue the entire class of assets to which that item belongs. 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.

We do not 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.*

Our reasons for not agreeing with the proposals are set out below:

(a) The original rationale for excluding revalued assets from the scope of the impairment standards is sound.

Currently property, plant and equipment and intangible assets measured at revalued amounts are excluded from the scope of both impairment standards (IPSAS 21 and 26). The IPSASB's rationale for this scope exclusion was that assets carried at revalued amounts under IPSAS 17 and IPSAS 31 should 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 would be taken into account in the valuation. The IPSASB explained that the carrying amounts determined under IPSAS 17 were not likely to be materially different from those determined using the impairment standards.

So IPSAS 17 does require that the impact of adverse events on revalued assets be addressed (if the carrying amount is materially different from fair value).

(b) We disagree with the statement in the proposed Basis for Conclusions on IPSAS 21 and IPSAS 26 that "impairments are conceptually different from revaluations".

The statement that impairments are conceptually different from revaluations can be challenged on the grounds that the same sort of adverse event could cause an impairment or a devaluation, because it would affect both the asset's fair value and its recoverable amount. For example, changes in demand for the entity's services and technological changes impact on the asset's recoverable amount for impairment purposes under IPSAS 21 and IPSAS 26 and its fair value under IPSAS 17.

IPSAS 17 contains non-integral Implementation Guidance about the frequency of revaluation of property, plant and equipment. The purpose of this guidance is to assist entities that adopt the revaluation model to determine whether carrying amounts differ materially from the fair value as at reporting date. This guidance is consistent with the requirements in IPSASs 21 and 26 in that it:

(i) Suggests that an annual assessment of an asset's carrying amount and fair value be undertaken at the reporting date; and

(ii) Lists sources of information that should be considered by the entity when assessing whether there is any indication that a revalued asset's carrying amount may differ materially from its fair value.

In respect of both (i) and (ii) above, this is consistent with (albeit not identical to) the requirements and indications of impairment in IPSASs 21 and 26.

(c) The difficulty of distinguishing between revaluations and impairments to meet the additional disclosure requirements proposed in IPSASs 21 and 26.

The proposed amendments to IPSAS 21 and 26 include additional disclosure requirements relating to the amount of impairment losses recognised on revalued assets and the reversals of impairment losses on revalued assets. An entity would have to distinguish between an impairment and a revaluation in order to comply with the proposed disclosure requirements.

Bearing in mind that:

(i) Similar events can lead to an impairment or devaluation (as discussed above),

(ii) the accounting treatment for devaluations and the recognition of impairment losses (and for revaluations and the reversal of impairment losses) is the same, and

(iii) the disclosure requirements are substantially the same,

the benefit of distinguishing between revaluations and impairments is unlikely to exceed the costs of making that distinction.

(d) The risk of pre-judging the outcome of the IPSASB project on Public Sector Measurement.

At its meeting in June 2015, the IPSASB approved a two-phase project on Public Sector Measurement.

The NZASB is concerned that expressing the view that impairments are conceptually different from revaluations has a risk of pre-judging the outcome of this measurement project.

For the reasons set out above, the NZASB does not support the proposals in ED 57 to bring revalued assets into the scope of the impairment standards.

Pending work on the measurement project, we suggest that the IPSASB amends IPSAS 17 to address the issue that we initially raised.

Our suggestion is that the IPSASB add an additional paragraph to IPSAS 17 (see the proposed paragraph 51A below). Paragraph 51 has been provided for context.

51. **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.**

51A. Notwithstanding paragraph 51, if:

(a) A specific event or circumstance (such as a fire, flood or earthquake) that adversely affects the value of an individual asset (or group of assets), but not the entire class of assets, occurs outside the usual frequency of revaluations; and

(b) The adverse event indicates that the carrying amount of that asset (or group of assets) may differ materially from that which would be determined if the asset were revalued at the reporting date

the entity shall revalue the affected asset (or group of assets) but need not revalue the entire class of assets to which that asset (or group of assets) belongs.