THE TREASURY
Kaitohutohu Kaupapa Rawa

27 February 2017

Warren Allen, Chief Executive
External Reporting Board
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Email: submissions@xrb.govt.nz

ED NZASB 2016-10 Impairment of Revalued Assets

Thank you for the opportunity to comment on ED 2016-10 that proposes amendments to PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 *Impairment of Cash-Generating Assets.*

We apologise for the lateness of our submission and hope this does not inconvenience you.

We support the proposal to clarify that impairment losses and reversals of impairment losses of a revalued asset do not require an entity to revalue the entire class of assets to which that item belongs in order to recognise an impairment loss in respect of that item. We are comfortable about this being achieved by bringing revalued assets within the scope of the impairments standards as a way to address the current practice issue highlighted with the Canterbury earthquakes, rather than only clarifying this through an amendment to PBE IPSAS 17 *Property, Plant and Equipment.*

We have provided our responses to the specified matters for comment attached.

We also supported the IPSASB proposals on the same topic and have included a copy of our submission to the IPSASB in an attachment for your information.

Yours sincerely

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Appendix One

1. Do you agree with the proposed amendments to PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 *Impairment of Cash-Generating Assets*? If not, please explain why not and identify what you think would be more appropriate

Yes. We agree with the changes to PBE IPSAS 21 and PBE IPSAS 26 to include property, plant and equipment and intangible assets measured at revalued amounts within the scope of PBE IPSAS 21 and PBE IPSAS 26.

2. Do you agree with the proposed amendments to PBE IPSAS 17 Property, Plant and Equipment and PBE IPSAS 31 Intangible Assets? If not, please explain why not and identify what you think would be more appropriate

Yes. We agree with the changes to PBE IPSAS 17. Consistent with our response to the IPSASB on the same topic, we commend the NZASB for clarifying that impairment losses and reversals of impairment losses of a revalued asset do not require an entity to revalue the entire class of assets to which that item belongs in order to recognise an impairment loss in respect of that item

3. Do you agree that there should be no RDR concessions for the new disclosures in PBE IPSAS 21 and PBE IPSAS 26? If you disagree, please provide reasons.

The Financial Statements of the Government are prepared using Tier 1 public sector PBE standards so we do not have experience in applying the reduced disclosure regime in practice. However, the proposal not to provide an RDR concession appears reasonable.

4. Do you agree with the proposed effective date of 1 January 2019, with early adoption permitted? If you disagree, please provide reasons

Yes

5. Do you have any other comments on the Exposure Draft?

No

Appendix Two

22 January 2016

Mr John Stanford
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017 United States of America

Dear John

Exposure Draft 57: Impairment of Revalued Assets

The New Zealand Treasury welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board on ED 57: *Impairment of Revalued Assets*

We agree with the changes to 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.

We commend the IPSASB for clarifying the objective for this limited scope project which is to ensure that impairment losses and reversals of impairment losses of a revalued asset do not require an entity to revalue the entire class of assets to which that item belongs in order to recognise an impairment loss in respect of that item [BC20E].

This change will enable public sector entities in New Zealand to recognise impairment losses on a single asset when an impairment event such as a fire or earthquake occurs between the annual revaluation cycle for the relevant class of assets. Our recent experience with the devastating Canterbury earthquakes is a practical example of when this amendment would be used. In this instance it was clear which specific properties were significantly impaired by the events, without revaluing the whole class of assets at considerable expense to taxpayers.

This is particularly important in our jurisdiction because the Financial Statements of the Government are published monthly, which requires the government reporting entity to apply the same accounting policies in its interim financial statements as are applied in its annual financial statements. This change will ensure that significant impairments on revalued assets that arise during the year can be reported in the month in which they occur.

While we are supportive of the overall proposals we have two areas of concern that we would like to bring to the attention of IPSASB:

1. We are concerned about the IPSASB's statement in BC20D that impairments are conceptually different from revaluations. We agree with the IPSASB that assets at revalued amounts can experience impairments from adverse events

(e.g. physical damage, obsolescence) which can cause devaluations. However, the current IPSASB literature and guidance on adverse events that causes devaluation under either IPSAS 17 (where adverse changes in value are called revaluation movements) and IPSAS 21 and 26 (where adverse changes in value are called impairments), are virtually the same. As a result we cannot see the basis for the IPSASB concluding that impairments are conceptually different from revaluations. We would therefore ask the IPSASB to either remove this statement from the Basis or expand further how they are conceptually different.

2. On a related matter, in our experience any annual valuation process (or other periodic or rolling valuation cycle) impairments such as physical damage or obsolescence is naturally taken into consideration as part of the valuation to determine the carrying amount or to ensure the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

   In our view, any item that changes the carrying value of the asset at the time of the annual valuation process (or other periodic or rolling valuation cycle) is likely to be labelled a revaluation movement and not necessarily identified as a separate "impairment". We are concerned that the disclosure requirements under IPSAS 21 and IPSAS 26 may require additional expense to be incurred to identify the separate components. We would ask the IPSASB to consider whether the separation of these components is warranted.

Aside from the points above we concur with the IPSASB that bringing property, plant and equipment and intangible assets that are measured at revalued amounts within the scope of the impairment standard will not be overly onerous for the preparers of financial statements [BC20F].

Yours sincerely

Nicola Haslam
Manager, Fiscal Reporting