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Item 4 of the Agenda

Draft EPSAS Screening Report IPSAS 21 – Impairment of non-cash-generating assets

*Paper by PwC in cooperation with Eurostat
- for discussion -*

This document was commissioned by Eurostat. It analyses the consistency of the named IPSAS standard with the draft EPSAS framework, with a view to informing future EPSAS standard setting. This version was prepared taking into account comments received from the participants of the Cell on Principles related to EPSAS Standards.

EPSAS screening report

IPSAS 21 - Impairment of non-
cash-generating assets

October 2020

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Background

Objectives

Reference is made to the general introduction to the EPSAS screening reports that covers the following elements:

- Key objectives of EPSAS.
- Standard setting process in the public sector.
- Purpose and scope of the screening reports.
- Approach of the screening reports.
- European public good.
- Common elements considered when preparing the reports.

General introduction to IPSAS 21

This International Public Sector Accounting Standard (IPSAS) deals with the impairment of non-cash-generating assets in the public sector. This standard is drawn primarily from IAS 36 'Impairment of assets', which was published by the International Accounting Standards Board (IASB).

In developing IPSAS 21 'Impairment of non-cash-generating assets', the International Public Sector Accounting Standards Board (IPSASB) applied its 'Process for Reviewing and Modifying IASB Documents' that identifies public sector modifications where appropriate. This approach enables the IPSASB to build on best practices in private sector financial reporting, while ensuring that the unique features of the public sector are addressed.

Due to the inherent character of their activities, public sector entities mainly hold non-cash generating assets, but may also hold cash-generating assets. While cash-generating assets are generating measurable future economic benefits based on return from commercial transactions, the value of non-cash-generating assets is based on their service potential. Impairment rules are therefore included in two separate standards, IPSAS 21 and IPSAS 26, 'Impairment of cash-generating assets'.

The objective of the IPSAS 21 standard is to prescribe the procedures that an entity applies to determine whether a non-cash-generating asset is impaired and to ensure that impairment losses are recognised. This standard also specifies when an entity would reverse an impairment loss and prescribes disclosures.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount. Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Scope of the report

The present screening report analyses the measurement, presentation and disclosure requirements for non-cash-generating assets in the scope of IPSAS 21.

IPSAS 21 applies to fixed assets, such as property, plant and equipment, intangible assets as well as equity-accounted investments and investments in subsidiaries in the entity's stand-alone financial statements. Specific impairment rules included in other standards apply to other assets such as inventories, receivables and other financial assets.

Reference to EFRAG assessment

IPSAS 21 deals with the impairment of non-cash-generating assets of public sector entities while IAS 36 deals with the impairment of cash-generating assets of profit-oriented entities.

No specific individual technical assessment of IAS 36 (adopted by the IASB in 2001), was carried out by the EFRAG, and therefore no specific individual endorsement report was produced.

The EFRAG however provided on 19 June 2002 a positive assessment of all IAS standards existing at 1 March 2002, including IAS 36, as part of the overall introduction of IAS within the EU.

The IASB revised IAS 36 in March 2004 as part of the first phase of its business combinations project. In January 2008 the IASB amended IAS 36 again as part of the second phase of its business combinations project. The EFRAG issued positive endorsement advice on the first phase of the business combinations project, however it acknowledged the complexity of practical implementation of the impairment test in practice. In May 2013 IAS 36 was amended by 'Recoverable amount disclosures for non-financial assets' (amendments to IAS 36). The amendments required the disclosure of information about the recoverable amount of impaired assets, if that amount is based on fair value less costs of disposal and the disclosure of additional information about that fair value measurement.

Reference to EPSAS issue papers¹

The PwC study of 2014² analysed the suitability of the IPSAS standards as a basis for developing EPSAS. This included the analysis of IPSAS 21. Following this analysis, IPSAS 21 was classified among the category 'Standards that could be implemented with minor or no adaptations'. The study indeed revealed no major

¹ EPSAS Issues papers are available on <https://ec.europa.eu/eurostat/web/epsas/key-documents/technical-developments>

² Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards (Ref. 2013/S 107-182395)

conceptual issues with IPSAS 21, although it was noted that judgment might be required to apply the requirements of both IPSAS 21 and IPSAS 26.

While developing the technical proposal on EPSAS, Eurostat commissioned a series of twenty technical issues papers (IPs), which analyse key public sector specific accounting issues. The papers were discussed at the EPSAS Working Group meetings during 2016-2018. The papers are all publicly available on Eurostat's website.

The EPSAS issue papers on the accounting treatment of infrastructure assets, military assets and intangible assets with a view to financial reporting requirements under the future European Public Sector Accounting Standards (EPSAS) addressed the issue of impairment of such assets. These EPSAS issue papers were discussed by the EPSAS WG in 2017.

The EPSAS issue papers on infrastructure assets and military assets acknowledged that judgment is required to identify impairment and to measure the recoverable service amount. Further, E&Y suggested to explore whether the option provided to measure the recoverable service amount at the higher of the fair value less costs to sell and value in use can be limited to the value in use approach, considering the lack of active market for such assets. The papers also suggested to explore whether a shortening of the list of impairment indicators would be useful.

Screening of IPSAS 21 'Impairment of non-cash- generating assets' against criteria set in the draft EPSAS framework

Introduction

The EPSAS criteria listed in the draft EPSAS conceptual framework have been used to perform an assessment of IPSAS 21 'Impairment of non-cash-generating assets', issued in 2008 by the IPSASB.

In order to develop recommendations, one should first considered whether IPSAS 21 would meet the qualitative characteristics of the draft EPSAS CF, i.e. whether it would provide relevant, reliable, complete, prudent, neutral, verifiable, economically substantive, understandable, timely and comparable information and would not be contrary to the true and fair view principle.

This report considers recognition, classification and measurement as well as presentation and disclosure requirements applicable to impairment of non-cash-generating assets for each of the qualitative characteristics of the draft EPSAS CF.

Further, this paper includes a high-level comparison between the requirements of IPSAS 21 and other international accounting and financial reporting frameworks applied by the public sector entities in various jurisdictions, such as IFRS, ESA 2010 and EU Accounting Rules, bearing in mind the objective of alignment, reduction of cost of implementation and compliance cost.

Finally, the paper assesses whether IPSAS 21 would be conducive to the European public good.

The findings are presented below and the conclusion is included in the next section of this report.

Conformity with Qualitative Characteristics

Relevance

As a result of the adoption of accrual accounting, financial statements of public sector entities include a statement of financial position. The entities should ensure that the carrying amounts of non-current assets are recoverable, i.e. that they are not overstated.

During the useful life of an asset, some unexpected events may occur (such as accidents or obsolescence) that may cause a reduction in an asset's value beyond normal depreciation and amortisation - an entity may become aware that its assets will not provide the expected future economic benefit or service potential.

When the carrying amount of an asset is greater than the recoverable amount, the value of the asset must be reduced to recognise this impairment loss to reflect the decline in the utility of the asset to the entity that controls it.

Impairments are thus events that affect individual assets, or groups of assets, and do not result from periodic revaluations.

The principal accounting issues to consider under IPSAS 21 are as follows:

- How should entities identify the occurrence of an impairment loss?
- How should the recoverable amount of an asset be measured?
- How should an impairment loss be accounted for and reported in the financial statements?

IPSAS 21 explains the concept of impairment and provides examples of different situations that may cause impairment of assets. It also describes how impairment should be measured and recorded in the accounts.

Under the draft EPSAS CF, selection of a measurement basis for assets needs to reflect the objectives of financial reporting under the EPSAS basis of accounting, as well as comply with qualitative characteristics, application principles and constraints of information in financial reports. Two measurement concepts are distinguished: historical cost and current value. The draft EPSAS CF clarifies that 'under the historical cost model at the reporting date the amount of an asset may be reduced by recognising depreciation and impairments'. The requirements of IPSAS 21 further develop this principle in the context of non-cash-generating assets.

IPSAS 21 requires public sector entities to assess whether there is any indication that an asset may be impaired at the end of each reporting period, based on the available external and internal sources of information.

If an indication of impairment exists, an entity is required to carry out an impairment test, i.e. estimate the recoverable service amount of the asset and compare it to the asset's carrying amount. This methodology is consistent with the accrual basis of

accounting and provides relevant and timely information about any changes with an adverse effect on the entity in the service potential of the assets.

The public sector entity must only perform an impairment test if - and only if - indicators of impairment exist. A wide range of indicators needs to be considered.

The standard provides a non-exhaustive list of primary external and internal indicators of impairment, for example:

- significant long-term changes that negatively impact the entity and the manner in which the asset is used, physical damage, indications from internal reporting that the service (for non-cash-generating assets) or economic (for cash-generating assets) performance is less than expected;
- services provided by the asset no more needed.

Secondary indicators are listed below:

- during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use; or
- a significant long-term decline (but not necessarily cessation or near cessation) in the demand for or need for services provided by the asset.

The impairment indicators should be used as a guidance rather than a compulsory checklist in the assessment of the need to perform a full impairment test at the reporting date. An impairment loss should be recognised 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). In this later case the impairment loss on a revalued asset is recognised in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that class of assets. Such an impairment loss on a revalued asset reduces the revaluation surplus for that class of assets.

The impairment test required by IPSAS 21 is relevant in assessing the recoverable amount of the assets used to deliver public services. It has an important confirmatory and predictive value because it confirms the level of the current service potential of an asset, on the top of its historic cost and its systematic depreciation over the expected useful economic life.

Faithful representation / Reliability

The notion of faithful representation and reliability in the draft EPSAS CF is linked to the qualitative characteristics of completeness, prudence, neutrality, verifiability and substance over form. These are separately discussed below.

The robustness of the assumptions used in the measurement of the recoverable service amount can affect the reliability of the information. Under IPSAS 21, an entity is encouraged but not required to disclose key assumptions used to determine the recoverable service amount of assets during the period. Disclosure of the key

assumptions improve the QC of reliability and verifiability allowing users to assess the impact of changes in the assumptions on the financial performance of an entity.

An asset is impaired when its carrying amount exceeds its recoverable service amount. The recoverable service amount of an asset is defined as the higher of (1) its fair value less costs to sell and (2) its value in use. It is presumed that if the fair value less costs to sell is higher, the entity will sell the asset, while if it is the value in use which is higher, the entity will continue to use the asset.

Note that as many public sector non-cash-generating assets are held on an ongoing basis to provide services or public goods to the community, the value in use of the asset is likely to be greater than its fair value less costs to sell.

Fair value

Fair value less costs to sell is the amount that can be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, after deduction of the costs of disposal.

To determine this amount, the entity should consider in descending order:

- the price included in a binding sale agreement;
- the market price of the asset when it is traded on an active market, and
- the best information available, including reference to similar recent transactions. Using observable data (such as a market price if an asset is traded on an active market) provides reliable and verifiable information to the users of the GPFSSs.

Value in use

In considering the principles underpinning the concept, the IPSASB agreed that the value in use of a non-cash-generating asset should be measured by reference to the present value of the remaining service potential of the asset. This replicates the approach taken by IAS 36.

Determining value in use (present value of remaining service potential) of a non-cash-generating asset is challenging. Estimating and discounting cash inflows that would have arisen had the entity sold its services or other outputs in the market is not privileged by the IPSASB because of the complexities involved in determining the appropriate prices at which to value the service or other output units and estimating the appropriate discount rate. This approach would provide less reliable information to the users because of the magnitude of the non-observable and potentially subjective assumptions.

Therefore, the IPSAS board considered other approaches that reflect an implicit (rather than explicit) determination of value in use. The standard considers the market value approach, and approaches that measure depreciated replacement cost (DRC), including consideration of restoration cost and service units. The choice of an

appropriate approach depends on the availability of information and the nature of the impairment:

- impairment due to physical damage of the asset: use restoration or DRC approach;
- impairment due to long-term change in the use of the asset: use service units or DRC approach;
- impairment due to external indicators: use DRC or service units approach.

The service units approach reflects the declining use of the physical capacity of an asset (e.g. the level of occupation), however it does not measure (at least not directly) the value of the public services (service potential of an asset) or the efficiency of the current use.

The IPSASB considered the concept of a service-generating unit in a non-cash-generating context. However, the IPSASB noted that as the requirements in IPSAS 21 are applied to individual assets, the adoption of such a concept by analogy to the cash-generating unit concept in IAS 36 is unnecessary because it is possible to identify the service potential of individual assets. Moreover, the IPSASB concluded its adoption would introduce undue complexities in accounting for impairment of non-cash-generating assets.

In general, application of the impairment requirements for non-cash-generating assets results in a faithful representation of the carrying values of the non-current assets in the statement of financial position, consistent with the measurement principles defined in the draft EPSAS CF.

Completeness

IPSAS 21 deals with the impairment of individual non-cash-generating fixed assets, such as property, plant and equipment, intangible assets as well as equity-accounted investments and investments in subsidiaries in the entity's stand-alone financial statements. IPSAS 21 therefore complements the rules included in the standards relating to these types of assets.

This approach achieves the QC of completeness and avoids duplication of the measurement requirements in other IPSAS.

Each material impairment loss requires a separate disclosure. An entity has to apply judgment to determine the level of materiality applied for the purpose of impairment loss disclosure.

An entity should disclose the following information for the aggregate of impairment losses and aggregate reversals of impairment losses recognised during the period for which no information is disclosed:

- (a) The main classes of assets affected by impairment losses (and the main classes of assets affected by reversals of impairment losses).

(b) The main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.

A class of assets is a grouping of assets of similar nature and use in an entity's operations.

Under IPSAS 21, an entity is encouraged but not required to disclose key assumptions used to determine the recoverable service amount of assets during the period. Disclosure of the key assumptions would increase the level of transparency because the users could assess the impact of changes in the assumptions on the financial performance of an entity.

Prudence

The basic objective of the standard is consistent with the QC 'prudence': it consists in making sure that the carrying amount of non-cash-generating assets is not overstated and does not reflect more than the service potential of the asset.

According to IPSAS 21, the increased carrying amount of an asset attributable to a reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods. This achieves a prudent outcome in case of reversal of the impairment loss, consistent with the cost measurement model. Further comments about the reversal of impairment losses are provided under the QC "Neutrality".

Neutrality

Information is neutral if it is free from bias. GPFs are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

The choice of the most appropriate approach to measuring value in use depends on the availability of data and the nature of the impairment. The standard does not prescribe the method to be used in each case, thus leaving space for the entities and the valuation experts to determine the most appropriate approach on a case by case basis. The choice of the method could be biased if it is intended to achieve a predetermined outcome. To mitigate these negative consequences, the standard provides examples of situations where the use of one particular approach is 'generally' appropriate:

'Impairments identified from significant long-term changes in the technological, legal or government policy environment are generally measurable using a depreciated replacement cost approach or a service units approach, when appropriate;

Impairments identified from a significant long-term change in the extent or manner of use, including that identified from the cessation or near cessation of demand, are

generally measurable using a depreciated replacement cost or a service units approach when appropriate; and

Impairments identified from physical damage are generally measurable using a restoration cost approach or a depreciated replacement cost approach when appropriate.'

IPSAS 21 requires an entity to make a formal estimate of the recoverable service amount if an indication of a reversal of an impairment loss is present. The standard identifies key indications that an impairment loss recognised for an asset in prior periods may no longer exist or may have decreased. Besides, the indicators of the impairment reversal mirror the indicators of impairment, except for the repair of an asset previously damaged.

Both impairment loss and subsequent reversal of an impairment loss for an asset is recognised immediately in surplus or deficit.

The standard does not include repair of a damaged asset as an indication of reversal of impairment because IPSAS 17 requires entities to add subsequent expenditure to the carrying amount of an item of property, plant and equipment when it is probable that the service potential over the total life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the entity. This requirement also applies to an investment property that is measured using the cost model under IPSAS 16. These requirements negate the need for an indication of reversal of impairment that mirrors the physical damage indication of impairment.

The guidance relating to the reversal of an impairment loss is consistent with the QC of neutrality.

Verifiability

Verifiability is the quality of information that helps assure users that GPFSS is based on supporting evidence in a way that it faithfully represents the substance of economic and other phenomena that it purports to represent.

As indicated under the QC 'Completeness', appropriate disclosures about the assumptions used in the impairment test should enable users to verify the information provided.

The assumptions used to determine the recoverable service amount of an asset are often judgmental and are determined by management based on the experience and the external and internal information available. This inevitably involves a certain degree of subjectivity. It should be noted that IPSAS 21 encourages an entity to disclose key assumptions used to determine the recoverable service amount of assets during the period. A transparent disclosure of key assumptions improves the verifiability of the information provided under IPSAS 21, especially if the carrying value of the assets in the scope of IPSAS 21 is significant for the public sector entity.

Substance over form

The 'Substance over form' QC is achieved when the underlying transactions, other events, activities or circumstances are accounted for and presented in accordance with their substance and economic reality, and not merely their legal form.

Determining value in use (present value of remaining service potential) of a non-cash-generating asset is a difficult conceptual issue. One approach that replicates IAS 36 involves estimating and discounting cash inflows that would have arisen had the entity sold its services or other outputs in the market; this approach was rejected by the IPSASB due to the complexities involved in determining the appropriate prices at which to value the service or other output units and estimating the appropriate discount rate. This approach would involve a significant level of judgment and lead to unnecessary costs.

Other approaches that are proposed by the IPSASB reflect an implicit determination of value in use. In this respect, the market value approach, and approaches that measure depreciated replacement cost, and include consideration of restoration cost and service units, are less sound from a conceptual point of view. The depreciated replacement cost of an asset may not deem to reflect the demand for the public services or the value (the degree of importance) of the public services. Nevertheless, implicit determination of value in use is justified by cost-benefit considerations and meets the QC of reliability.

Understandability

The 'Understandability' QC is achieved when information is presented in a manner that facilitates expert and non-expert users to comprehend its meaning.

The standard requires exhaustive disclosures for each material impairment loss recognised or reversed during the period, in order to satisfy the 'Understandability' QC. The disclosures in paragraph 77 address the following items:

- (a) The events and circumstances that led to the recognition or reversal of the impairment loss.
- (b) The amount of the impairment loss recognised or reversed.
- (c) The nature of the asset.
- (d) The segment to which the asset belongs, if the entity reports segment information in accordance with IPSAS 18.
- (e) Whether the recoverable service amount of the asset is its fair value less costs to sell or its value in use.

(f) If the recoverable service amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market).

(g) If the recoverable service amount is value in use, the approach used to determine value in use.

It should be noted that the concept of a service-generating unit in a non-cash-generating context was not retained by the IPSASB when developing IPSAS 21. The requirements in IPSAS 21 are applied to individual assets, and the CGU concept is considered unnecessary by the IPSASB because it is possible to identify the service potential of individual assets in the public sector. It is stated in the Basis of conclusions that the adoption of the CGU concept would introduce undue complexities (and as a result provide less understandable information) in accounting for impairment of non-cash generating assets.

Non-cash-generating intangible assets are in the scope of IPSAS 21. Public sector intangible assets such as those reflecting the entity's ability to issue licenses may arise in a cash-generating context. Other intangible assets may arise in a non-cash-generating context and should be tested for impairment according to the requirements of the standard.

An active market exists for only a few types of intangible assets. Therefore, the recoverable service amount will be based on the value in use calculation. The value in use of a non-cash-generating asset under IPSAS 21 is measured using the depreciated replacement cost, the restoration cost or the service units approaches, as appropriate. The standard allows sufficient room for using the most appropriate measurement approach, depending on the nature of the asset and the circumstances leading to its impairment.

Comparability

A key objective of EPSAS is to achieve the necessary level of financial transparency and comparability of financial reporting, between and within EU Member States.

There are no significant explicit options or policy choices to be made under IPSAS 21.

However, IPSAS 21 is a standard whose application requires the exercise of judgment. This inevitably may lead to inconsistencies in the way the requirements of the standard are applied.

One key area of judgment is the determination of whether a long-term asset is a cash-generating asset or a non-cash generating asset. In case of doubt, it is presumed that the asset serves a public service objective and IPSAS 21 applies. The requirement to disclose the criteria developed by the entity to distinguish cash-generating from non-cash-generating assets provides useful information to be able to compare financial statements prepared under IPSAS.

The standard provides a non-exhaustive list of impairment indicators; this should assist preparers in identifying whether an asset might be impaired. Judgment is required in making this identification which might lead to impairment tests not being carried out in similar situations.

Central in the application of the requirements of the standard is also the determination of the recoverable service amount of an asset. Assumptions need to be taken and in doing so judgment needs to be exercised. The lack of comparability that could result from an inconsistent use of judgment by preparers is mitigated by the provision of appropriate disclosures in the notes regarding the criteria and assumptions used in exercising such judgment. In addition, transparent disclosure of the key assumptions used to determine the recoverable service amount is encouraged by the standard and is helpful in achieving better comparability of the information provided under IPSAS 21.

Alignment with other frameworks

ESA 2010

In terms of subsequent measurement, assets are measured at current prices as if they were acquired at the balance sheet date under ESA 2010. The measurement approach under ESA 2010 closely agrees with the fair value model under IPSAS.

A major difference between ESA 2010 and IPSAS however stems from the calculation of their respective surplus/deficit calculations. Under ESA rules, acquisitions of items of fixed assets are recorded as capital expenditures within surplus/deficit in the period of acquisition. The full impact is taken in the year of acquisition. In contrast, under IPSAS, the impact on the statement of financial performance is taken over time through yearly depreciation expenses and/or impairments.

Under ESA 2010 rules, the concept of impairment is not applied.

IFRS³

IPSAS 21, is drawn primarily from IAS 36 'Impairment of assets'.

IAS 36 applies to cash-generating assets and cash-generating units, whilst IPSAS 21 applies to individual non-cash-generating assets. This results in a number of differences between the two standards. The main differences between IPSAS 21 and IAS 36 are as follows:

³ Refer to the IPSAS-IFRS Alignment Dashboard regularly updated by the IPSASB available on https://www.ifac.org/system/files/uploads/IPSASB/Agenda%20Item%201.5%20IPSAS%20IFRS%20Alignment%20Dashboard_June%202019.pdf

- The method of measurement of value in use of a non-cash-generating asset under IPSAS 21 is different to that applied to a cash-generating asset under IAS 36. IPSAS 21 measures the value in use of a non-cash-generating asset as the present value of the asset's remaining service potential using a number of approaches. IAS 36 measures the value in use of a cash-generating asset as the present value of future cash flows from the asset.
- IPSAS 21 deals with the impairment of individual assets. There is no equivalent in IPSAS 21 for a cash-generating unit as defined in IAS 36.
- IPSAS 21 does not include a decrease in market value significantly greater than would be expected as a result of the passage of time or normal use as a minimum indication of impairment. This indication is included as an additional indication that an impairment may exist.
- IPSAS 21 includes a decision to halt the construction of an asset before completion as a black letter indication of impairment and the resumption of the construction of the asset as an indication of reversal of the impairment loss. There are no equivalents in IAS 36.

EU accounting rules

EAR 18 'Impairment of assets' is based on IPSAS 21 and IPSAS 26 as regards the recognition and measurement of impairment losses for both cash-generating and non-cash generating assets. There are no significant differences between EAR 18 and IPSAS 21 and IPSAS 26.

European Public Good

Assessing whether IPSAS 21 is conducive to the European public good

The assessment of whether IPSAS 21 would be conducive to the European public good addresses the following items:

- a) Whether the standard will improve financial reporting;
- b) The costs and benefits associated with the standard; and
- c) Whether the standard could have an adverse effect to the European economy, including financial stability and economic growth.

These assessments will allow the EU authorities to draw a conclusion as to whether the standard is likely to be conducive to the European public good.

The analysis revealed no reasons why IPSAS 21 would not be conducive to the European public good:

- Recognition, classification, measurement, presentation and disclosure requirements of IPSAS 21 will provide useful information to the users of the GPFs and will improve the overall quality of financial reporting in the public sector. The main criterion in assessing the proposals is whether the accounting information provided about the recoverable service amount of an entity's non-cash-generating assets will be improved when compared to the information provided currently under the local accounting frameworks of the EU member states. Based on the assessment, the requirements of IPSAS 21 satisfy this criterion.
- Implementation of the standard should result in a moderate one-off cost and should be relatively cost-neutral on an ongoing basis for preparers. The necessary procedures will need to be implemented to apply the requirements of IPSAS 21, but these practical challenges do not outweigh the conceptual merits of the standard.
- Considering its conceptual merits, the standard will bring improved financial reporting when compared to heterogeneous reporting requirements currently applied in the EU. As such, its endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship. The analysis has not identified any adverse effect of the standard to the European economy, including financial stability and economic growth, or any other factors that would mean the standard is not conducive to the European public good.

Conclusion

Assessing IPSAS 21 against the criteria formulated in the draft EPSAS framework

The analysis has not revealed major conceptual issues with IPSAS 21 'Impairment of non-cash-generating assets' and has not identified any major inconsistency between IPSAS 21 and the draft EPSAS framework.

Following the screening analysis summarised in the present report, the future standard setter could consider following conclusions. The information resulting from the application of IPSAS 21:

- would provide relevant, reliable, complete, prudent, neutral, verifiable, economically substantive, understandable, timely and comparable information needed for making economic decisions and achieving the necessary level of financial transparency and comparability of financial reporting in the European Union;
- would not be contrary to the true and fair view principle; and
- would be conducive to European public good.

However, in order to achieve consistent application of the new standard within the EU context and therefore better address the comparability objective of EPSAS financial statements, additional guidance and improvements in certain areas might be desirable.

- *Judgment and comparability.* The use of judgment and estimates is inherent in the preparation of financial statements and may to some extent affect the comparability of financial statements. This is particularly true in relation to the application of IPSAS 21 in various areas, including for distinguishing cash-generating from non-cash-generating assets, for identifying whether an asset is impaired and for determining the recoverable service amount of an asset. The future EPSAS standard setter might wish to develop more specific guidance in these areas. It should also be noted that the lack of comparability that could result from an inconsistent use of judgment by preparers is mitigated by the provision of appropriate disclosures in the notes regarding the criteria and assumptions used in exercising such judgment.

The analysis has not identified any adverse effect of the standard to the European economy, including financial stability and economic growth, or any other factors that would mean the standard is not conducive to the European public good.

The future standard setter could consider the conclusions of this assessment and likely net benefit of using the requirements of IPSAS 21 as a starting point in

implementing the equivalent EPSAS, considering the need for additional guidance in certain areas identified in the present EPSAS screening report.