Issues Paper: Impairment of Statutory Receivables
(a comparison of AASB 136 and AASB 139)

Background

1. Table 1 of the AASB August 2009 Work Program includes 'Impairment of Statutory Receivables (gaps in GAAP No. 21)' as a medium priority active project under the category 'domestic not-for-profit and public sector'. The project was identified by the AASB as part of its consultation process on public sector issues in 2006-2007. The issue was considered by the Board at its 23-25 May 2007 meeting, as part of its review of a staff paper outlining public sector not-for-profit entity issues arising from the implementation of Australian Accounting Standards that incorporate IFRSs (that is, gaps in GAAP). The Board minutes for that meeting record the following:

> **Issue 21 Impairment of statutory receivables**
> The Board noted that taxes receivable by a government from taxpayers (and some other statutory receivables) are not financial instruments under the definition in AASB 132 *Financial Instruments: Presentation and Disclosure* because they are not 'contractual'. Paragraph AG12 of AASB 132 emphasises that income taxes, arising as they do from statutory requirements do not give rise to financial instruments. Accordingly, the impairment requirements of AASB 139 *Financial Instruments: Recognition and Measurement* appear not to apply, leaving the assessment of impairment of taxes receivable under AASB 136 *Impairment of Assets*.
>
> However, there is a view that the impairment requirements of AASB 139 are more suited to such receivables than the requirements of AASB 136, which focus on individual assets and cash generating units.
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> The Board also noted the view that it may be open to interpretation as to whether AASB 136 would need to be applied simply because statutory receivables don't fit into the financial instruments definition. There may be a reasonable argument that AASB 136 is not relevant and that AASB 139 should be applied by analogy. The Board also noted that under paragraph 23 of AASB 136 there may be some latitude for using a portfolio approach using 'estimates, averages and computational short cuts'.
>
> The Board acknowledged that a portfolio basis seems to be the most reasonable basis for assessing the impairment of large numbers of statutory receivables and that the Board should consider this issue since it is public sector specific. The Board asked that staff prepare a paper identifying possible solutions for its consideration.

2. A draft list of gaps in GAAP that accompanied a recent letter from the Chairman of the Australasian Council of Auditors-General (ACAG) Financial Reporting and Auditing Committee to the AASB Chairman, dated 19 October 2009, confirmed that this topic remains an issue (see agenda paper 17.5).

3. Consistent with the Board's May 2007 decision above and the AASB Work Program, this paper identifies possible solutions for the Board's consideration.

4. In identifying possible solutions, staff acknowledge that the IASB is in the process of replacing IAS 39 *Financial Instruments: Recognition and Measurement* in phases. Of particular relevance to statutory receivables, the IASB recently issued IFRS 9 *Financial Instruments*, dealing at this stage with classification and

measurement of financial assets, and plans to issue replacement requirements on the measurement/impairment of financial assets at amortised cost in 2010. This paper is written in the context of AASB 139 on the basis that the IASB has signaled that IFRS 9 will not be mandatory until periods beginning on or after 1 January 2013, which for Australian governments would not be until periods ending on or after 30 June 2014.

Scope of this paper

5. The term we are using is ‘statutory receivables’, rather than the broader term ‘non-contractual receivables’, to constrain the issue to the public sector. There is no explicit definition of ‘statutory receivables’ in Australian Accounting Standards. For the purpose of this paper, the term ‘statutory receivables’ is defined as “receivables that are created as a result of transactions or events subject to statutory requirements imposed by governments”. Thus, statutory receivables include all receivables related to statutory charges, such as income tax, payroll tax, land tax, council rates, parking fines, traffic infringements and stamp duty.

6. The primary objective of this paper is to compare impairment-related requirements under AASB 136 and AASB 139 (rather than the impending AASB 9 – see paragraph 4 above), and thereby:
   (a) determine whether they could result in materially different outcomes in relation to the impairment of statutory receivables; and
   (b) if so, suggest which Standard(s) should apply to the impairment of statutory receivables and whether there is a need for any Aus paragraph(s) to clarify the application of requirements.

7. Except in relation to impairment, this paper does not consider the measurement of statutory receivables. To simplify the discussion, we make an explicit assumption that statutory receivables are initially measured at their nominal amount (i.e. face value), which is the carrying amount against which impairment is subsequently assessed. In doing so, we acknowledge the following:
   (a) Some argue that statutory receivables should be initially measured at fair value, and that impairment test approaches are only a part of the accounting model for assets that are <u>not</u> accounted for at fair value. For example:
      (i) paragraph 11 of AASB 1004 *Contributions* states “Income shall be measured at the fair value of the contributions received or receivable.”
      (ii) paragraph 43 of AASB ED 180 *Income from Non-exchange Transactions (Taxes and Transfers)* states “An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition, except that financial assets shall be measured in accordance with AASB 139/NZ IAS 39 *Financial Instruments: Recognition and Measurement*.”
   (b) Others argue that statutory receivables, such as tax receivables, usually do not have a fixed ‘face value’ when initially recognised. Significant estimates and judgments are required to quantify the receivable and the amount actually

owed can be subject to considerable revision (through voluntary revision, penalties and general interest charge) at the initial recognition point as well as subsequently, before considering impairment events.

8. The rest of this paper:
    - (a) summarises the current approaches (and views) of Australian federal, state and territory (not local government) jurisdictions and the New Zealand Government on this issue;
    - (b) outlines the scope of current accounting pronouncements relating to the impairment of statutory receivables;
    - (c) compares the approaches to impairment under AASB 136 and AASB 139 to assess whether they could result in materially different impairment outcomes;
    - (d) notes the developments in international accounting standards and statistical standards; and
    - (e) recommends action the Board could take.

Impairment – current approaches (and views) of Australian jurisdictions and the New Zealand Government

9. Based on an analysis of comments from Australian jurisdictions and the New Zealand Treasury (see Appendix A [confidential]), we note the following:
    - (a) Within Australia, all jurisdictions have broadly similar types of statutory charges that may give rise to statutory receivables, which are considered material at Whole of Government, General Government Sector and some individual entity levels;
    - (b) The current approaches adopted by Australian jurisdictions and the New Zealand Government are inconsistent and there is no approach that is dominant. Specifically, practice in Australia is split between the application of AASB 136 (Australian, New South Wales and Victorian governments [and the New Zealand Government adopts NZ IAS 36 for tax receivables]) and AASB 139 (Western Australian, South Australian, Queensland, Tasmanian and North Territory governments); and
    - (c) There is no clear majority view on which Standard should apply. More jurisdictions express a preference for AASB 139; however, three jurisdictions argue strongly that it would be more appropriate to apply AASB 136/ NZ IAS 36.

The scope of current accounting pronouncements

AASB 136 Impairment of Assets

10. AASB 136 applies to all assets other than those excluded by paragraph 2 of AASB 136. As statutory receivables are not identified (explicitly or implicitly) in the exclusions, it would seem that, literally, AASB 136 does apply to statutory receivables.

11. AASB 136 focuses on whether there is an indication that an asset may be impaired and requires an impairment test to be conducted if such an indication exists at the

reporting date. However, some express concern that the relevant impairment requirements (especially the nature of evidence for establishing impairment in paragraphs 12-14) are difficult to relate to statutory receivables, because the Standard was predominantly written for property, plant and equipment, intangible assets and goodwill. Further, the unit of account used in AASB 136 is either individual asset or cash-generating unit. Some constituents are concerned about whether AASB 136 permits impairment testing to be conducted on a portfolio basis.

AASB 139 Financial Instruments: Recognition and Measurement

12. Paragraph AG12 of AASB 132 states that:

    > Liabilities or assets that are not contractual (such as income taxes that are created as a result of statutory requirements imposed by governments) are not financial liabilities or financial assets.

    Hence income taxes (and other statutory charges that are not contractual) do not meet the definition of a financial instrument, as provided in paragraph 11 of AASB 132:

    > A *financial instrument* is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

    Consequently, statutory receivables are outside the scope of AASB 139 (paragraphs 2-7), which applies to financial instruments.

13. Despite the exclusion in AASB 132, some argue that, in substance, statutory receivables share more characteristics with financial assets than with property, plant and equipment and the other assets on which the impairment guidance in AASB 136 is focused. Hence, impairment requirements under AASB 139 would be more suitable than requirements under AASB 136.

14. Apart from the scope issue discussed so far, staff note there might be other difficulties in applying the general, non-impairment, requirements of AASB 139 to statutory receivables. For instance, sub-paragraph 46(a) of AASB 139 requires subsequent measurement of receivables to be at amortised cost using the effective interest method. This method is arguably inappropriate for some classes of statutory receivables (e.g. tax receivables) which, as mentioned in paragraph 7(b) above, do not have a fixed amount/cost, but are estimates that can be subject to considerable revision even before considering impairment events. Further, if the Board decided to deem statutory receivables to be financial assets, the level of the disclosure required under AASB 7 would be potentially onerous.

    These AASB 139 application difficulties are beyond the scope of this paper. If the Board decides to address the impairment of statutory receivables by deeming such receivables to be financial assets, these potential consequential application issues would need to be resolved. Staff did not think it would be an efficient use of staff resources to address the application issues at this stage, because the AASB might not proceed down the path of requiring statutory receivables to be subject to all of the requirements in AASB 139.

Impairment – comparison of AASB 136 and AASB 139

15. A detailed matrix comparison of AASB 136 and AASB 139 is provided in Appendix B of this paper, to help assess whether their application could result in materially different outcomes. The following table presents a high level summary of the comparison matrix where we have identified substantive differences.

Item	Item compared	Substantive differences identified (AASB 136 vs. AASB 139)
(a)	Definition of impairment	None
(b)	Frequency and timing of impairment testing and the nature of evidence for establishing impairment	Indicators vs. Objective evidence
(c)	Measuring impairment loss – recoverable amount concept	Need to determine both fair value less costs to sell and value in use, compared with AASB 139, which only requires value in use to be determined
(d)	Measuring impairment loss – discount rate	Pre-tax current market rate vs. Original effective interest rate
(e)	Measuring impairment loss – impairment of single asset or groups of assets	Individual asset (although see paragraph 23 of AASB 136) vs. Group of financial assets
(f)	Measuring impairment loss – estimating cash flows	None
(g)	Recognising and measuring an impairment loss	None
(h)	Reversing an impairment loss	None
(i)	Disclosure	Comparable in relation to impairment requirements, but AASB 7 has more onerous requirements in general terms (see paragraph 14 above)

In relation to item (d) in the above table, although we have identified the discount rate as a substantive difference, it may not be material in practice, due to the short-term nature of most statutory receivables.

In relation to item (e) in the above table, paragraph 23 of AASB 136 states "In some cases, estimates, averages and computational short cuts may provide reasonable approximations of the detailed computations illustrated in this Standard for determining fair value less costs to sell or value in use". Some argue, and we agree, that it accommodates a portfolio approach. Staff consider that a portfolio basis seems to be the only reasonable approach for assessing the impairment of large numbers of statutory receivables (e.g. the application of an individual asset approach would be impracticable given the number of debts held, for example, by the ATO), and that an assessment on a portfolio basis is acceptable under either AASB 136 (in light of paragraph 23) or AASB 139 (by analogy).

16. Based on the substantive differences identified in the above table, staff think the following significant factors might arise by applying the different Standards:
    (a) As noted in item (b) in the above table, the triggers (termed 'objective evidence') listed in AASB 139 are easier to relate to statutory receivables than the triggers (termed 'indicators') listed in AASB 136. Consequently, in practice, the requirements would be better understood and more likely to be

implemented appropriately, if AASB 139 were applied to statutory receivables;

(b) As noted in item (c) in the above table, to calculate impairment losses, both fair value less costs to sell and value in use need to be determined under AASB 136 (because AASB 136 requires the recoverable amount to be calculated as the higher of an asset's fair value less costs to sell and its value in use), whilst only value in use needs to be determined under AASB 139. In practice, the determination of fair value less cost to sell for statutory receivables is potentially complex; and

(c) Although staff think, as noted in paragraph 15 above, AASB 136 accommodates a portfolio approach, some constituents might interpret it otherwise and inconsistent application might result across jurisdictions.

Developments in international accounting standards and statistical standards

17. The current status of work being done in relation to international accounting standards and statistical standards that are potentially relevant to this issue are summarised immediately below (Appendix C provides a brief history of and a high level summary of current proposals for international accounting standards).

IPSASB

18. In February 2009, the IPSASB issued three exposure drafts on financial instruments, which are largely based on the IFRSs on financial instruments. Within the three exposure drafts, no explicit guidance is proposed regarding accounting for statutory receivables. The IPSASB intends, in due course, to develop guidance that addresses such public sector specific issues.

IASB

19. As implied in paragraph 4 above, the IASB's current ongoing project of replacing IAS 39 has the potential to significantly change the IAS 39 requirements, including impairment provisions. Some argue that the AASB's work on the impairment of statutory receivables project should be deferred until the completion of the IASB's project; however, given the IASB's private sector focus, it is unlikely to specifically address impairment of statutory receivables in the near future (if at all).

Government Financial Statistics (GFS)

20. In December 2002 the Financial Reporting Council (FRC) set out a broad strategic direction that the Board should pursue as an urgent priority the harmonisation of GFS and GAAP reporting.

21. Paragraph 2.184 of the Australian Bureau of Statistics (ABS) GFS Manual defines accounts receivable to include "short and long term trade credit and accounts receivable, accounts and interest receivable, and prepayments made". Therefore, statutory receivables are included in the GFS definition of accounts receivable.

22. Based on paragraph 7.102 of the ABS GFS Manual, allowances for doubtful debts are not recognised in the GFS system; an impairment is only recognised when a receivable is written off. The same approach applies to statutory receivables. Accordingly, GFS does not provide us with a solution to this issue that would be suitable for GAAP, because it would be inconsistent with both AASB 136 and AASB 139 requirements.

23. In recent correspondence with ABS staff, we understand that the ABS is not reviewing this aspect of the GFS at the moment. The International Monetary Fund is expecting to release an annotated outline of a revised GFS Manual for comment in 2010; however, no specific dates or other details is available at this stage.

Staff recommendations

Issue 1: Is it necessary for the Board to specifically address this issue?

24. The application of AASB 136 and AASB 139 might result in materially different impairment outcomes for the same group of statutory receivables (see paragraphs 15 and 16 above and the last column of sections (b), (c) and (i) of Appendix B), depending on the facts and circumstances.

Staff view 1: On balance, due to the diversity in practice that could result in materially different accounting for impairment under the two Standards, staff think that it is necessary to address this issue.

Issue 2: If the Board considers it is necessary to address this issue, should the Board address it now or await the outcome of IPSASB/IASB work?

25. Relevant considerations are summarised in the table immediately below.

Factor	Consideration	Staff's view
Timing	• the Board's other priorities in both the private and public sectors • the Board's resource constraints • whether the work of IPSASB/IASB is likely to provide a timely solution/direction	Because the work of IPSASB/IASB is unlikely to provide a timely solution and this is a relatively urgent public sector specific topic, it would be appropriate to address it without waiting for the outcomes of the IPSASB and the IASB projects.
The likelihood that the IPSASB/IASB specifically address this issue	• IPSASB: exposure drafts on financial instruments and separate project on financial instruments in public sector (proposal phase) • IASB: Replacement of IAS 39 project[1]	It is feasible that the IPSASB will specifically address this issue in the medium term; but the likelihood the IASB will specifically address this issue is very low.
The potential impact of the outcome of IPSASB/IASB work		The potential impact of the outcome of IPSASB/IASB work is uncertain at this stage.

[1] Based on the proposals of the replacement of IAS 39 project, statutory receivables will be unlikely to meet the criteria for measurement at amortised cost, where there is no interest charged (except for tax receivables). Therefore, any guidance issued now would need to be addressed again when the replacement of IAS 39 project is finalised.

Staff view 2: If the Board thinks it is necessary to specifically address the issue, the Board should not await the outcome of IPSASB/IASB work.

Issue 3: If the Board considers the issue should be addressed now, what approach should be taken?

26. If the Board decides to proceed immediately, the alternative broad approaches the Board could take are to make it clear that:
    (a) AASB 136 applies (approach 1); or
    (b) AASB 139 applies (approach 2).

Approach 1 – 'Mandating and clarifying the application of AASB 136'

27. An Aus paragraph along the following lines could be inserted:

    > In respect of not-for-profit public sector entities, this Standard applies to receivables that are created as a result of transactions or events subject to statutory requirements imposed by governments (termed 'statutory receivables'). Adoption of a portfolio approach for impairment testing of statutory receivables is consistent with paragraph 23 of this Standard.

28. Arguments for this approach include the following.
    (a) Approach 1 is consistent with the way the scope clauses are expressed in AASB 136 relative to AASB 139, because AASB 136 clearly includes statutory receivables within its scope.
    (b) It avoids onerous disclosure requirements that some might conclude would be required under AASB 7, if AASB 139 were to apply to the impairment of statutory receivables.
    (c) Compared with AASB 7, AASB 136 contains clearer and more comprehensive guidance on impairment-related disclosures.

29. Arguments against this approach include the following.
    (a) The focus of AASB 136 is predominantly on property, plant and equipment, intangible assets and goodwill, rather than monetary items; therefore, the requirements (especially in relation to the nature of evidence for establishing impairment) under AASB 136 would be difficult to apply to statutory receivables.
    (b) A portfolio basis is the only reasonable basis for assessing the impairment of large numbers of statutory receivables. Although we interpret paragraph 23 of AASB 136 as providing sufficient latitude for using a portfolio approach, approach 1 would be tantamount to interpreting IFRS, and it might be difficult to quarantine that interpretation to only not-for-profit public sector entities, given the hierarchy under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.
    (c) As noted in paragraph 16(b) above, it may be onerous to require the determination of both fair value less costs to sell and value in use.

Approach 2 – 'Mandating and clarifying the application of AASB 139'

30. On the assumption that only the impairment requirements of AASB 139 would be imposed, an Aus paragraph along the following lines could be inserted:

    > In respect of not-for-profit public sector entities, the requirements relating to impairment (paragraphs 63-65 and paragraphs AG84-93 of AASB 139 and relevant paragraphs of AASB 7[2]) apply to receivables that are created as a result of transactions or events subject to statutory requirements imposed by governments (termed 'statutory receivables'). Statutory receivables are categorised as 'loans and receivables'.

31. Arguments for this approach include the following.
    (a) Consistent with the substance over form principle, statutory receivables arise from legislation, but in substance, are analogous to assets arising from contractual arrangements.
    (b) The impairment provisions under AASB 139 can be more easily applied to statutory receivables, because of the financial/monetary nature of such receivables.
    (c) As noted in paragraph 16(a) above, triggers (termed 'objective evidence') listed in AASB 139 are easier to relate to statutory receivables than triggers (termed 'indicators') listed in AASB 136.
    (d) It is broadly consistent with the approach taken by the IASB in its proposed amendments to IAS 27 *Consolidated and Separate Financial Statements* under the IASB Exposure Draft ED/2009/11 *Improvements to IFRSs*, where the IASB is addressing an issue where there is debate about whether IAS 36 or IAS 39 applies to the impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor (see Appendix D for details).

32. Arguments against this approach include the following.
    (a) As noted by the IPSASB staff in Agenda Paper 11.2 for the October 2008 IPSASB meeting: "IFRSs are very complex and if the IPSASB modifies the scope or definitions to include non-contractual items, it may not achieve the goal of developing comprehensive requirements for non-contractual items, and will, inevitably, make already complex standards more complex."
    (b) As noted in paragraph 7 above, for the purpose of this paper, we have assumed that AASB 139 is not applied to the initial recognition of statutory receivables. It might be seem to be inconsistent to use AASB for impairment unless the measurement requirements were also used. For example, the value in use calculation under AASB 139 applies the effective interest method, which closely relates back to the initial and subsequent measurements of 'loans and receivables' under the amortised cost model.

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[2] Prime facie, compared with AASB 7, AASB 136 contains clearer and more specific guidance on impairment-related disclosures, because AASB 7 is a principle-based standard. For example, paragraph 7 of AASB 7 only implicitly suggests that additional disclosures might be required. If the Board considers that the specific nature of statutory receivables requires more specific disclosure guidance than in AASB 7, an alternative approach the Board could consider would be to exempt statutory receivables from the impairment disclosure requirements under AASB 7 and instead require application of the disclosure requirements under AASB 136.

If the Board were to decide to proceed beyond approach 2 and deem statutory receivables to be financial assets (rather than to apply only the impairment-related provisions of AASBs 7 and 139 to statutory receivables), statutory receivables would potentially be subject to all financial instruments standards. The presentation and disclosure requirements for financial instruments are complex due to their nature. It is arguable that, in respect of statutory receivables, simplified presentation and disclosure requirements may be possible/sufficient. Accordingly, the deeming approach would potentially involve more consequential amendments (e.g. related measurement and disclosure requirements/exemptions) to be made to AASBs 7, 132 and 139.

Implication for convergence with New Zealand and transaction-neutrality

33. If either approach is adopted, its development should be undertaken jointly with New Zealand Financial Reporting Standards Board (FRSB), consistent with the Boards' decision at their October 2009 meeting:

> **Agenda Item 3 Australia – New Zealand Convergence**
> The Boards considered the analyses of IFRSs adopted in Australia and New Zealand and decided that:
> …
> (d) in due course, they would consider developing a joint exposure draft relating to convergence of modifications to IFRSs in respect of not-for-profit/public benefit entities containing proposals based on application of the Boards' *Process for Modifying IFRSs for PBE/NFP* subject to current work being undertaken on the reporting framework in each jurisdiction.

The advice we have received from the New Zealand FRSB suggests that, currently, the New Zealand FRSB is not doing any work on this topic, nor has it formed any view.

Staff view 3: Between the two alternative broad approaches (on the assumption that this issue is to be addressed now), staff prefer Approach 2 over Approach 1 (i.e. staff think AASB 139 would be the more relevant Standard to apply to address the issue).

APPENDIX A [Confidential]
Impairment – current approaches and views of Australian jurisdictions and New Zealand

[The content of this Appendix has been omitted due to its confidential nature]

APPENDIX B
Matrix comparison of AASB 136 and AASB 139

Impairment under AASB 136 *Impairment of Assets* [As amended April 2007]	Impairment under 139 *Financial Instruments: Recognition and Measurement* [As amended October 2008]	AASB staff comment on differences in the context of statutory receivables
(a) Definition of impairment		
8. An asset is impaired when its carrying amount exceeds its recoverable amount… **6. An *impairment loss* is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.**	**46. … All financial assets except those measured at fair value through profit or loss are subject to review for impairment in accordance with paragraphs 58-70, and Appendix A paragraphs AG84-AG93.**	Although impairment is not explicitly defined in AASB 139, the broad approach to identifying impairment and measuring impairment loss is consistent with the broad approach in AASB 136.
(b) Frequency and timing of impairment testing and the nature of evidence for establishing impairment		
8. … Paragraphs 12-14 describe some indications that an impairment loss may have occurred. If any of those indications is present, an entity is required to make a formal estimate of recoverable amount. Except as described in paragraph 10, this Standard does not require an entity to make a formal estimate of recoverable amount if no indication of an impairment loss is present. **9. An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.** **12. In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:** **External sources of information** **(a) 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;** **(b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;**	**58. An entity shall assess at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall apply paragraph 63 (for financial assets carried at amortised cost), paragraph 66 (for financial assets carried at cost) or paragraph 67 (for available-for-sale financial assets) to determine the amount of any impairment loss.** 59. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events: (a) significant financial difficulty of the issuer or obligor; (b) a breach of contract, such as a default or delinquency in	**Indicators (AASB 136) vs. Objective evidence (AASB 139)** The type of evidence required to be considered in testing impairment under AASB 136 might be difficult to consider in respect of impairment of statutory receivables. The type of evidence described in sub-paragraphs 59(a), (b), (d) and (f) of AASB 139 can be more easily applied to statutory receivables. Accordingly, in relation to triggers for establishing impairment of statutory receivables, an entity is unlikely to use the AASB 136 indicators described in paragraphs 12-14. Rather, it is likely to use indications similar to those described in paragraph 59 of AASB 139. AASB 136 paragraph 12 does not restrict the indications that can be examined (AASB 136.13 explicitly states: "the list in paragraph 12 is not exhaustive"). To this extent, the nature of evidence used to assess impairment under AASB 136 and AASB 139 can be similar, although using AASB 136 would be less straightforward for preparers. Consequently, in practice, more impairment testing might be triggered by applying AASB 139 to statutory receivables.

[3] Once an asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale), it is excluded from the scope of this Standard and is accounted for in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Impairment under AASB 136 ***Impairment of Assets*** [As amended April 2007]	**Impairment under 139** ***Financial Instruments: Recognition and Measurement*** [As amended October 2008]	**AASB staff comment on differences in the context of statutory receivables**
(c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially; **(d) the carrying amount of the net assets of the entity is more than its market capitalisation;** **Internal sources of information** **(e) evidence is available of obsolescence or physical damage of an asset;** **(f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite;**3 **and** **(g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.** 13. The list in paragraph 12 is not exhaustive. An entity may identify other indications that an asset may be impaired and these would also require the entity to determine the asset's recoverable amount or, in the case of goodwill, perform an impairment test in accordance with paragraphs 80-99. 14. Evidence from internal reporting that indicates that an asset may be impaired includes the existence of: (a) cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted; (b) actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted; (c) a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted loss, flowing from the asset; or	interest or principal payments; (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; (d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; (e) the disappearance of an active market for that financial asset because of financial difficulties; or (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: (i) adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or (ii) national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group). 60. The disappearance of an active market because an entity's financial instruments are no longer publicly traded is not evidence of impairment. A downgrade of an entity's credit rating is not, of itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. A decline in the fair value of a financial asset below its cost or amortised cost is not necessarily evidence of impairment (e.g. a decline in the fair value of an investment in a debt instrument that results from an increase in the risk-free interest rate).	

Impairment under AASB 136 ***Impairment of Assets*** [As amended April 2007]	**Impairment under 139** ***Financial Instruments: Recognition and Measurement*** [As amended October 2008]	**AASB staff comment on differences in the context of statutory receivables**
(d) operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.		
(c) Measuring impairment loss – recoverable amount concept		
6. An *impairment loss* is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. ***Carrying amount* is the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.** **The *recoverable amount* of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.** ***Fair value less costs to sell* is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.** ***Value in use* is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.** 20. It may be possible to determine fair value less costs to sell, even if an asset is not traded in an *active market*. However., sometimes it will not be possible to determine fair value less costs to sell because there is no basis for making a reliable estimate of the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In this case, the entity may use the asset's value in use as its recoverable amount.	**Financial Assets Measured at Amortised Cost** **63. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). …** AG84. … As a practical expedient, a creditor may measure impairment of a financial asset carried at amortised cost on the basis of an instrument's fair value using an observable market price. …	The measurement of impairment loss under AASB 136 may conceivably differ from that under AASB 139 because, under AASB 136, it is necessary to consider 'fair value less costs to sell' as well as value in use, whereas under AASB 139 consideration of 'fair value less costs to sell' is not explicitly required. Paragraph AG84 of AASB 139 allows for fair value to be used if there is an observable market price (which is not expected to be the case for statutory receivables). Paragraph 20 of AASB 136 contemplates not using 'fair value less costs to sell', if there is no basis for making a reliable estimate of that amount. Although statutory receivables are generally not tradable assets (even if any class of statutory receivables can be traded, there is unlikely to be a deep and liquid market for them), in practice, fair value is still arguably determinable by incorporating observable and unobservable inputs, in the absence of an active market. Therefore, to calculate impairment losses, both fair value less costs to sell and value in use need to be determined under AASB 136, whilst only value in use needs to be determined under AASB 139. In practice, the determination of fair value less cost to sell for statutory receivables is potentially complex.
(d) Measuring impairment loss – discount rate		
55. The discount rate (rates) shall be a pre-tax rate (rates) that reflect(s) current market assessments of: **(a) the time value of money; and** **(b) the risks specific to the asset for which the future cash flow estimates have not been adjusted.** 56. A rate that reflects current market assessments of the time value of money and the risks specific to the asset is the	**9. The *effective interest method* is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.** **The *effective interest rate* is the rate that exactly discounts estimated future cash payments or receipts through the**	A different approach to discounting is adopted, which could lead to a different measure of impairment loss. **Pre-tax current market rate (AASB 136) vs. Original effective interest rate (AASB 139)** Under AASB 136, a pre-tax current market rate for an individual asset (i.e. a rate that reflects current market assessments of the time value of money and the risks specific to the asset) is

Impairment under AASB 136 ***Impairment of Assets*** [As amended April 2007]	**Impairment under 139** ***Financial Instruments: Recognition and Measurement*** [As amended October 2008]	**AASB staff comment on differences in the context of statutory receivables**
return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset. This rate is estimated from the rate implicit in current market transactions for similar assets or from the weighted average cost of capital of a listed entity that has a single asset (or a portfolio of assets) similar in terms of service potential and risks to the asset under review. However, the discount rate(s) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted. Otherwise, the effect of some assumptions will be double-counted. 57. When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. …	**expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (e.g., prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see AASB 118** ***Revenue*****), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).** **Financial Assets Measured at Amortised Cost** **63. … discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). …** AG84.Impairment of a financial asset carried at amortised cost is measured using the financial instrument's original effective interest rate because discounting at the current market rate of interest would, in effect, impose fair value measurement on financial assets that are otherwise measured at amortised cost. If the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. If a loan, receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss under paragraph 63 is the current effective interest rate(s) determined under the contract. As a practical expedient, a creditor may measure	adopted. According to the IASB's basis for conclusion relating to the discount rate, a discount rate based on a historical rate (i.e. the effective rate implicit when an asset was acquired) is rejected, because a subsequent estimate of recoverable amount should be based on prevailing interest rates, given that management's decisions about whether to keep the asset are based on prevailing economic conditions (i.e. historical rates do not reflect prevailing economic conditions). In contrast, under AASB 139, the original effective interest rate (which is effectively a historical rate) for individual or a group of financial assets with similar credit risk characteristics is adopted. The rationale for adopting the original effective interest rate for financial assets measured at amortised cost (in AASB 139) is that "discounting at the current market rate of interest would, in effect, impose fair value measurement on financial assets that are otherwise measured at amortised cost". However, if (as is probable) most statutory receivables are short term, then discounting may be seen to be unnecessary (i.e. the effect of discounting is considered immaterial) under both AASBs 136 and 139, and different approaches to discounting will not be an issue of concern. Note 1: one Australian jurisdiction indicates that the strict application of discount rates may not be adopted due to materiality, e.g., many of these receivables are very short term and discounting may not be material; and with most taxation balances "interest" is added to outstanding debts, which offsets the application of discount (at least in materiality terms). Note 2: New Zealand's Policy Paper *Reporting Tax Receivables under NZ IFRS* has a very detailed discussion on the methodology in adopting an appropriate discount rate for 'tax receivables' under NZ IAS 36 and why the original effective interest rate under NZ IAS 39 is not appropriate in that context.

Impairment under AASB 136 ***Impairment of Assets*** [As amended April 2007]	**Impairment under 139** ***Financial Instruments: Recognition and Measurement*** [As amended October 2008]	**AASB staff comment on differences in the context of statutory receivables**
	impairment of a financial asset carried at amortised cost on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. AG87.For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtor's ability to pay all amounts due according to the contractual terms (e.g. on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past-due status, and other relevant factors).	
(e) Measuring impairment loss – impairment of single asset or groups of assets		
6. A ***cash-generating unit*** **is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.** 7. Paragraphs 8-17 specify when recoverable amount shall be determined. These requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. The remainder of this Standard is structured as follows: (a) paragraphs 18-57 set out the requirements for measuring recoverable amount. These requirements also use the term 'an asset' but apply equally to an individual asset and a cash-generating unit; (b) paragraphs 58-108 set out the requirements for recognising and measuring impairment losses. Recognition and measurement of impairment losses for individual assets other than goodwill are dealt with in paragraphs 58-64. … … 22. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs (see	**58. An entity shall assess at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. …** 64. An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (see paragraph 59). If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. **[from IAS 39 Basis for Conclusions (Jan 2009)]** BC116 The Board was persuaded by the arguments in favour of a portfolio assessment for individually assessed assets that are found not to be impaired and decided to confirm that a loan or other financial asset measured at amortised cost that is individually assessed for impairment and found not to be impaired should be included in a group of similar financial assets that are assessed for impairment on a portfolio basis.	**Individual asset (AASB 136) vs. Group of financial assets (AASB 139)** AASB 136 requires impairment to be applied to an individual asset unless it "does not generate cash inflows that are largely independent of those from other assets or groups of assets". In the case of statutory receivables, this would imply impairment being applied to each individual receivable. In contrast, AASB 139 would allow statutory receivables to be grouped. Thus, strict application of the Standards might result in different impairment losses, and AASB 136 would be more onerous to apply. However, some argue that paragraph 23 of AASB 136 would provide some latitude to allow impairment of statutory receivables to be calculated by reference to a grouping of assets. If this is accepted, then this cause of difference between the two Standards would appear not to exist.

Impairment under AASB 136 ***Impairment of Assets*** [As amended April 2007]	**Impairment under 139** ***Financial Instruments: Recognition and Measurement*** [As amended October 2008]	**AASB staff comment on differences in the context of statutory receivables**
paragraphs 65-103), unless either: (a) the asset's fair value less costs to sell is higher than its carrying amount; or (b) the asset's value in use can be estimated to be close to its fair value less costs to sell and fair value less costs to sell can be determined. 23. In some cases, estimates, averages and computational short cuts may provide reasonable approximations of the detailed computations illustrated in this Standard for determining fair value less costs to sell or value in use.	This is to reflect that, in the light of the law of large numbers, impairment may be evident in a group of assets, but not yet meet the threshold for recognition when any individual asset in that group is assessed. …	
(f) Measuring impairment loss – estimating cash flows		
Value in Use **30. The following elements shall be reflected in the calculation of an asset's value in use:** **(a) an estimate of the future cash flows the entity expects to derive from the asset;** **(b) expectations about possible variations in the amount or timing of those future cash flows;** **(c) the time value of money, represented by the current market risk-free rate of interest;** **(d) the price for bearing the uncertainty inherent in the asset; and** **(e) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.** **Basis for Estimates of Future Cash Flows** **33. In measuring value in use an entity shall:** **(a) base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence;** **(b) base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these**	62 In some cases the observable data required to estimate the amount of an impairment loss on a financial asset may be limited or no longer fully relevant to current circumstances. For example, this may be the case when a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. In such cases, the entity uses its experienced judgement to estimate the amount of any impairment loss. Similarly, an entity uses its experienced judgement to adjust observable data for a group of financial assets to reflect current circumstances (see paragraph AG89). The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. AG85.The process for estimating impairment considers all credit exposures, not only those of low credit quality. For example, if an entity uses an internal credit grading system it considers all credit grades, not only those reflecting a severe credit deterioration. AG86.The process for estimating the amount of an impairment loss may result either in a single amount or in a range of possible amounts. In the latter case, the entity recognises an impairment loss equal to the best estimate within the range, taking into account all relevant information available before the financial report is issued about conditions existing at the reporting date. AG87.For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtor's ability to	The requirements in AASB 136 and AASB 139 appear to be complementary rather than contradictory. In practice, relevant factors (suggested either by AASB 136 or AASB 139) need to be taken into consideration in estimating cash flows for statutory receivables.

Impairment under AASB 136 ***Impairment of Assets*** [As amended April 2007]	**Impairment under 139** ***Financial Instruments: Recognition and Measurement*** [As amended October 2008]	**AASB staff comment on differences in the context of statutory receivables**
budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified; and **(c) estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.** **Composition of Estimates of Future Cash Flows** **39. Estimates of future cash flows shall include:** **(a) projections of cash inflows from the continuing use of the asset;** **(b) projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and** **(c) net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.** **52. The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life shall be the amount that an entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.**	pay all amounts due according to the contractual terms (e.g. on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past-due status, and other relevant factors). The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. However loss probabilities and other loss statistics differ at a group level between (a) assets that have been individually evaluated for impairment and found not to be impaired and (b) assets that have not been individually evaluated for impairment, with the result that a different amount of impairment may be required. If an entity does not have a group of assets with similar risk characteristics, it does not make the additional assessment. AG88.Impairment losses recognised on a group basis represent an interim step pending the identification of impairment losses on individual assets in the group of financial assets that are collectively assessed for impairment. As soon as information is available that specifically identifies losses on individually impaired assets in a group, those assets are removed from the group. AG89.Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Entities that have no entity-specific loss experience or insufficient experience use peer group experience for comparable groups of financial assets. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss	

Impairment under AASB 136 *Impairment of Assets* [As amended April 2007]	Impairment under 139 *Financial Instruments: Recognition and Measurement* [As amended October 2008]	AASB staff comment on differences in the context of statutory receivables
	estimates and actual loss experience. AG90.As an example of applying paragraph AG89, an entity may determine, on the basis of historical experience, that one of the main causes of default on credit card loans is the death of the borrower. The entity may observe that the death rate is unchanged from one year to the next. Nevertheless, some of the borrowers in the entity's group of credit card loans may have died in that year, indicating that an impairment loss has occurred on those loans, even if, at the year-end, the entity is not yet aware which specific borrowers have died. It would be appropriate for an impairment loss to be recognised for these 'incurred but not reported' losses. However, it would not be appropriate to recognise an impairment loss for deaths that are expected to occur in a future period, because the necessary loss event (the death of the borrower) has not yet occurred. AG91.When using historical loss rates in estimating future cash flows, it is important that information about historical loss rates is applied to groups that are defined in a manner consistent with the groups for which the historical loss rates were observed. Therefore, the method used should enable each group to be associated with information about past loss experience in groups of assets with similar credit risk characteristics and relevant observable data that reflect current conditions. AG92.Formula-based approaches or statistical methods may be used to determine impairment losses in a group of financial assets (e.g. for smaller balance loans) as long as they are consistent with the requirements in paragraphs 63-65 and AG87-AG91. Any model used would incorporate the effect of the time value of money, consider the cash flows for all of the remaining life of an asset (not only the next year), consider the age of the loans within the portfolio and not give rise to an impairment loss on initial recognition of a financial asset.	
(g) Recognising and measuring an impairment loss		
Recognising and Measuring an Impairment Loss 58. Paragraphs 59-64 set out the requirements for recognising and measuring impairment losses for an individual asset other than goodwill. … **59. If, and only if, the recoverable amount of an asset is less**	**Financial Assets Measured at Amortised Cost** **63. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the**	Appears to be similar treatment under AASB 136 and AASB 139.

<table>
<tr><th>Impairment under AASB 136
Impairment of Assets
[As amended April 2007]</th><th>Impairment under 139 Financial Instruments: Recognition and Measurement [As amended October 2008]</th><th>AASB staff comment on differences in the context of statutory receivables</th></tr>
<tr><td>than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.

60. An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.</td><td>asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.</td><td></td></tr>
<tr><td colspan="3">(h) Reversing an impairment loss</td></tr>
<tr><td>7. …
(c) paragraphs 109-116 set out the requirements for reversing an impairment loss recognised in prior periods for an asset or a cash-generating unit. Again, these requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 117-121, for a cash-generating unit in paragraphs 122 and 123, and for goodwill in paragraphs 124 and 125;
…
110. An entity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.

111. In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:
External sources of information
(a) the asset's market value has increased significantly during the period;
(b) significant changes with a favourable effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the</td><td>Financial Assets Measured at Amortised Cost
65. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal shall be recognised in profit or loss.</td><td>Although AASB 136 has more comprehensive guidance on reversing an impairment loss, the fundamental principle appears to be the same under both AASB 136 and AASB 139.</td></tr>
</table>

Impairment under AASB 136 ***Impairment of Assets*** [As amended April 2007]	**Impairment under 139** ***Financial Instruments: Recognition and Measurement*** [As amended October 2008]	**AASB staff comment on differences in the context of statutory receivables**
entity operates or in the market to which the asset is dedicated; **(c) market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially;** **Internal sources of information** **(d) significant changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs; and** **(e) evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.** … **114. An impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall, except as described in paragraph 117, be increased to its recoverable amount. That increase is a reversal of an impairment loss.** … 116. An asset's value in use may become greater than the asset's carrying amount simply because the present value of future cash inflows increases as they become closer. However, the service potential of the asset has not increased. Therefore, an impairment loss is not reversed just because of the passage of time (sometimes called the 'unwinding' of the discount), even if the recoverable amount of the asset becomes higher than its carrying amount. **Reversing an Impairment Loss for an Individual Asset** **117. The increased carrying amount of an asset other than**		

Impairment under AASB 136 ***Impairment of Assets*** [As amended April 2007]	**Impairment under 139** ***Financial Instruments: Recognition and Measurement*** [As amended October 2008]	**AASB staff comment on differences in the context of statutory receivables**
goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. … **119. A reversal of an impairment loss for an asset other than goodwill shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (e.g. the revaluation model in AASB 116). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.**		
(i) Disclosure (impairment related)		
7. … (d) paragraphs 126-133 specify the information to be disclosed about impairment losses and reversals of impairment losses for assets and cash-generating units. … **Disclosure** **126.An entity shall disclose the following for each class of assets:** **(a) the amount of impairment losses recognised in profit or loss during the period and the line item(s) of the income statement in which those impairment losses are included;** **(b) the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) of the income statement in which those impairment losses are reversed;** **(c) the amount of impairment losses on revalued assets recognised directly in equity during the period; and** **(d) the amount of reversals of impairment losses on revalued assets recognised directly in equity during the period.** … **129. An entity that reports segment information in accordance with AASB 114 shall disclose the following for each reportable segment based on an entity's primary reporting format:** **(a) the amount of impairment losses recognised in profit**	1. … Requirements for disclosing information about financial instruments are in AASB 7 *Financial Instruments: Disclosures*. **[from AASB 7** (as amended October 2008)**]** **Significance of Financial Instruments for Financial Position and Performance** 7 An entity shall disclose information that enables users of its financial report to evaluate the significance of financial instruments for its financial position and performance. **Allowance account for credit losses** 16 When financial assets are impaired by credit losses and the entity records the impairment in a separate account (e.g. an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets. **Income statement and equity** **Items of income, expense, gains or losses** 20 An entity shall disclose the following items of income, expense, gains or losses either on the face of the financial report or in the notes: … (e) the amount of any impairment loss for each class of	Prime facie, compared with AASB 7, AASB 136 contains clearer and more specific guidance on impairment-related disclosures, because AASB 7 is a principle-based standard. For example, paragraph 7 of AASB 7 only implicitly suggests that additional disclosures might be required. If the Board considers that the specific nature of statutory receivables requires more specific disclosure guidance than in AASB 7, an alternative approach the Board could consider would be to exempt statutory receivables from the impairment disclosure requirements under AASB 7 and instead require application of the disclosure requirements under AASB 136. If the Board were to decide to deem statutory receivables to be financial assets, the level of the disclosure required under AASB 7 would be potentially onerous. This concern could be addressed by exempting statutory receivables from the non-impairment disclosure requirements under AASB 7 and/or requiring application of the disclosure requirements under AASB 136.

Impairment under AASB 136 ***Impairment of Assets*** [As amended April 2007]	**Impairment under 139** ***Financial Instruments: Recognition and Measurement*** [As amended October 2008]	**AASB staff comment on differences in the context of statutory receivables**
or loss and directly in equity during the period; and **(b) the amount of reversals of impairment losses recognised in profit or loss and directly in equity during the period.** **130. An entity shall disclose the following for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit:** **(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; and** **(c) for an individual asset:** **(i) the nature of the asset; and** **(ii) if the entity reports segment information in accordance with AASB 114, the reportable segment to which the asset belongs, based on the entity's primary reporting format;** **(d) …** **(e) whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs to sell or its value in use;** **(f) if recoverable 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); and** **(g) if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.** **131. An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph 130:** **(a) the main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses; and** **(b) the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.**	financial asset. **Credit risk** 36 An entity shall disclose by class of financial instrument: (a) the amount that best represents its maximum exposure to credit risk at the reporting date without taking account of any collateral held or other credit enhancements (e.g. netting agreements that do not qualify for offset in accordance with AASB 132); (b) in respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements; (c) information about the credit quality of financial assets that are neither past due nor impaired; and (d) the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated. *Financial assets that are either past due or impaired* 37 An entity shall disclose by class of financial asset: (a) an analysis of the age of financial assets that are past due as at the reporting date but not impaired; (b) an analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors the entity considered in determining that they are impaired; and (c) for the amounts disclosed in (a) and (b), a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value. **Other disclosure – accounting policies (paragraph 21)** B5 Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial report and the other accounting policies used that are relevant to an understanding of the financial report. For financial instruments, such disclosure may include: … (f) the criteria the entity uses to determine that there is objective evidence that an impairment loss has occurred (see paragraph 20(e)); …	

APPENDIX C
History of and current proposals for international accounting standards

IPSASB

C1 At its March 2008 meeting, the IPSASB concluded that it should develop an IPSAS addressing the recognition and measurement of financial instruments. It also concluded that a comprehensive financial instruments project should be initiated that includes development of:

(a) IPSASs based on IFRS 7 *Financial Instruments: Disclosures*, IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*; and

(b) a separate IPSAS dealing with certain public sector specific financial instruments.

C2 At its June 2008 meeting, the IPSASB considered an IPSASB staff Issues Paper *Financial Instruments in the Public Sector*. The IPSASB staff:

(a) note there are a number of items in the public sector that are generally regarded as assets or liabilities, but do not meet the IASB's definition of a financial instrument, financial asset or financial liability, including items that do not arise from contracts, but through another binding arrangement such as legislation. Examples of these instruments include taxes receivable, transfers receivable and payable and fines receivable;

(b) note that IPSAS 23[4] provides a precedent for including 'binding arrangements' within the scope of an IPSAS and including accounting requirements; and propose that the definitions of 'financial instrument', 'financial asset' and 'financial liability' be amended to include non-contractual 'binding arrangements'; and

(c) propose that the term 'binding arrangements' be defined to include assets and liabilities arising from non-exchange transactions as a result of legislation and other legally enforceable arrangements as well as contractual arrangements.

The IPSASB staff expressed the view that the IPSASs would be materially deficient without these amendments.

C3 The IPSASB staff Issues Paper notes that the South African Accounting Standards Board (SAASB), in its February 2008 Discussion Paper on financial instruments, identified four options for addressing transactions and arrangements that have many of the characteristics of financial instruments but do not meet the IAS 32 definition of a financial instrument, because they are not contractual. They are reproduced as follows.

1. Amend the definition of financial instrument to "any binding arrangement that gives rise…" The SAASB proposed defining 'Binding arrangement' as:
   (a) Any arrangement arising out of:

[4] IPSAS 23 is the most relevant IPSAS in providing guidance on the recognition and initial measurement of receivables arising from non-exchange transactions; however, it does not give much guidance on the subsequent measurement (including impairment) of those receivables. Currently, the AASB and the NZ FRSB are jointly developing a standard for non-exchange transactions based on IPSAS 23 (see AASB ED 180 *Income from Non-exchange Transactions (Taxes and Transfers)*), which may affect accounting choices outlined in this paper.

(i) A contract,
(ii) Legislation, or
(iii) Operation of law,

(b) Which has clear economic consequences that either party has little or no discretion of avoiding, and
(c) Conveys legal rights or legal obligations on either party, which are enforceable by law.

2. Retain the definitions of financial instruments, financial assets and financial liabilities in IAS 32, but develop specific scope inclusions for non-contractual arrangements and then deal with them on the same basis as financial instruments.
3. Exclude all non-contractual arrangements from the scope of the standards on financial instruments and develop a separate standard that addresses only non-contractual arrangements.
4. Develop a single standard, split into distinctive sections, dealing with both financial instruments (arising out of contractual arrangements) as well as non-contractual binding arrangements.

C4 At its October 2008 meeting, the IPSASB decided to:

(a) elevate the priority of developing IPSASs based on IFRS 7, IAS 32 and IAS 39, in light of the global credit crisis;
(b) only modify the core text of IAS 32 and IAS 39 to ensure connectivity with current IPSASs; and
(c) for IFRS 7, consider proposals to omit disclosures or insert new disclosures for public sector specific reasons and provide additional guidance to address contractual items such as guarantees provided for nil or nominal consideration, concessionary loans and sovereign receivables and payables.

C5 In February 2009, the IPSASB approved the issuance of ED 37 *Financial Instruments: Presentation*, ED 38 *Financial Instruments: Recognition* and *Measurement* and ED 39 *Financial Instruments: Disclosures*. Within three EDs, no explicit application guidance is given regarding non-contractual items with the characteristics of financial instruments (including statutory receivables). Instead, the IPSASB intends to ultimately develop guidance that addresses such public sector specific issues.

C6 It is interesting to note that the IPSASB has recently proposed how to determine whether an arrangement is a ‘contract’ in its ED 37, which is largely based on IAS 32, with minimum amount of changes proposed for all public sector entities other than Government Business Enterprises [note: IAS 32.AG12 is proposed to be deleted in the IPSASB ED 37]:

AG18. An entity considers the substance rather than the legal form of an arrangement in determining whether it is a ‘contract’ for purposes of this Standard. Contracts, for the purposes of this Standard, are generally evidenced by the following (although this may differ from jurisdiction to jurisdiction):

- Contracts involve <u>willing parties</u> (emphasis added) entering into an arrangement;
- The terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party. For example, a donor funding arrangement creates an obligation for the donor to transfer resources to the recipient in terms of the agreement concluded, and establishes the right of the recipient to receive those resources. These types of arrangements may be

contractual even though the recipient did not provide equal consideration in return i.e. the arrangement does not result in equal performance by the parties; and

- The remedy for non-performance is enforceable by law.

Statutory receivables appear to meet the second and the third dot-points of AG 18; however, it is unclear whether all three dot-points would need to be met for the inclusion of statutory receivables under IPSASB ED 37 (first dot-point suggests that arrangements that compel entities to transact with one another are not contractual in nature).

IASB

C7 In its March 2008 Discussion Paper Reducing Complexity in Reporting Financial Instruments, the IASB notes the following:

Non-contractual rights and obligations that are similar to financial instruments

A49 Some rights and obligations to deliver financial instruments are not financial instruments because they are not contractual. An example is taxes payable, which is a statutory obligation. Some consider statutory (and perhaps regulatory) assets and liabilities so similar to contractual assets and liabilities that they should be included in the definition of a financial instrument.

A50 At present, those assets and liabilities are subject to separate standards, and the boards have tentatively decided that they should not be included in the definition of a financial instrument.

Accordingly, the IASB has not proposed to amend the definition of 'financial instrument' in order to expand the application of IAS 39 to non-contractual rights and obligations that are similar to financial instruments.

C8 At the end of 2008, the IASB and FASB agreed to work jointly toward a globally accepted replacement of the requirements on accounting for financial instruments. Consistent with that commitment, in April 2009, the IASB set out a six-month timetable for publishing a proposal to replace IAS 39.

C9 In November 2009, the IASB issued Exposure Draft ED/2009/12 *Financial Instruments: Amortised Cost and Impairment*, which proposes an expected loss model, where expected losses are recognised throughout the life of financial asset measured at amortised cost, and not just after a loss event has been identified. In such a case, the difference between AASB 136 and AASB 139 (if it were to be revised for the proposals in ED/2009/12) in terms of impairment would be expected to be greater, because no trigger event is required under proposals in ED/2009/12.

C10 In developing ED/2009/12 *Financial Instruments: Amortised Cost and Impairment*, the IASB compared impairment approaches for financial assets at (amortised) cost and non-financial assets in its May 2009 Board meeting agenda paper AP5A and AP5Cs. A table comparison of impairment approaches for financial assets at (amortised) cost and non-financial assets is presented immediately below.

Impairment approaches for:	Financial assets at (amortised) cost	Non-financial assets
Standard	IAS 39 includes all three aspects (cost basis, impairment and revenue recognition) for financial assets measured at amortised cost	IAS 36 applies to a limited number of types of financial assets (para 4), but its main application is to non-financial assets; three aspects of a cost-based method are scattered throughout several IFRSs
Integral rate of return	Yes, because by definition the cash flows associated with the instruments are contractual, and hence have an integral contractual return over the contractual life of the instrument; The existence of contractually specific cash flows is fundamental to the definition of a financial instrument	No, because most returns on non-financial assets are not contractually pre-set over the life of the asset(s)
Cash flow estimates	Less complex	More difficult and complex
Unit (other than individual based)	Portfolio based impairment test for financial instrument is about using the law of large numbers to improve the accuracy of estimates	CGUs for impairment testing are used by IAS 36 to avoid an arbitrary allocation of cash flows to individual assets

The key difference between the currently used amortisd cost with an incurred loss model and the expected cash flow approach is that the estimates of future cash flows are not limited by the 'incurred' threshold. This means that implementing an expected cash flow approach would require changing existing guidance regarding: (MayAP5A.42)

(a) cash flow estimates (over/under);
(b) applying the Effective Interest Method; and
(c) collective versus individual impairment assessment.

APPENDIX D
Proposed amendments to IAS 27 *Consolidated and Separate Financial Statements* under the IASB Exposure Draft ED/2009/11 *Improvements to IFRSs*

Introduction

The Board proposes the following amendments to IAS 27 *Consolidated and Separate Financial Statements*.

Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor

The Board proposes to clarify that in its separate financial statements the investor shall apply the provisions of IAS 39 *Financial Instruments: Recognition and Measurement* to test its investments in subsidiaries, jointly controlled entities and associates for impairment.

Proposed amendments to IAS 27 *Consolidated and Separate Financial Statements*
Accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements

38 **When an entity prepares separate financial statements, it shall account for investments in subsidiaries, jointly controlled entities and associates either:**
  - **(a) at cost, or**
  - **(b) at fair value through profit or loss,**

  each in accordance with IAS 39. The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5. The measurement of investments accounted for at fair value through profit or loss in accordance with IAS 39 is not changed in such circumstances.

38D When an entity prepares separate financial statements, it shall apply the requirements of IAS 39 for the determination and measurement of impairment losses on investments in subsidiaries, jointly controlled entities and associates.

IAS 36 *Impairment of Assets*
Scope

2 **This Standard shall be applied in accounting for the impairment of all assets, other than:**
  - **(a) ...**
  - **(h) deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of IFRS 4 *Insurance Contracts*; ~~and~~**
  - **(i) non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*; and~~.~~**
  - **(j) investments in subsidiaries, jointly controlled entities and associates that are accounted for at cost in the separate financial statements of the investor.**

Basis for Conclusions on proposed amendments to IAS 27 *Consolidated and Separate Financial Statements*

Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor

BC1 The Board received a request to clarify whether in its separate financial statements the investor should apply the provisions of IAS 36 *Impairment of Assets* or IAS 39 *Financial Instruments: Recognition and Measurement* to test its investments in subsidiaries, jointly controlled entities, and associates for impairment. Paragraph 38 of IAS 27 permits an entity that prepares separate financial statements to account for investments in subsidiaries, jointly controlled entities and associates either at cost or in accordance with IAS 39. However, IAS 27 is silent on whether testing for impairment of those investments accounted for at cost should apply the requirements of IAS 36 or IAS 39.

BC2 The Board noted two views exist in current practice. The first view points out that if the investor elects to account for its investments in subsidiaries, jointly controlled entities and associates at cost, then those investments are not 'in accordance with IAS 39'. In accordance with this view, those investments at cost are precluded from applying IAS 39 and must apply IAS 36. The second view reiterates the Board's prior conclusions that the purpose of separate financial statements is on the performance of the assets as investments. Therefore, those who believe in the second view argue that in the separate financial statements of the investor, the testing for impairment of all investments in subsidiaries, jointly controlled entities and associates should be in accordance with IAS 39.

BC3 The Board agreed with the second view and concluded that in its separate financial statements the investor should apply the provisions of IAS 39 to test its investments in associates for impairment.