Project	*Annual Improvements* Project – 2009 - 2011 cycle
Topic	IAS 36 *Impairment of Assets* – disclosure of the recoverable amount

Purpose of this paper

1. The purpose of this paper is to document the staff analysis and recommendations relating to a request received by the IFRS Interpretations Committee, to address an inconsistency in the disclosure requirements in IAS 36 *Impairment of Assets*, when the discounted cash flow model is used in the calculation of the recoverable amount.
2. This paper:
   (a) Provides background information on the issue;
   (b) Analyses the issue within the context of IFRSs;
   (c) Makes a staff recommendation an assessment of the proposed amendment against the criteria for inclusion in *Annual Improvements*; and
   (d) Asks the Interpretations Committee whether they agree with the staff recommendation.

Background information

3. An amendment to IAS 38 paragraph 134(e) was made in the *Annual Improvements* standard issued in May 2008 (this amendment is reproduced in Appendix C).

4. This amendment addressed an inconsistency in the disclosure requirements for circumstances where discounted cash flows were used to determine recoverable amounts for cash-generating units ('CGU's) that contain goodwill or intangible assets with indefinite useful lives. Specifically, the amendment brought the disclosures required in respect of fair value less costs to sell ('FVLCTS') in line with those required for value in use ('VIU') in circumstances where discounted cash flows are used to calculate FVLCTS. The same information is now required about the period over which the cash flows have been projected, the growth rate used to extrapolate the projections and the discount rate(s) applied to the projections, when discounted cash flows are used to calculate FVLCTS (paragraph 134(e)(iii) – (v)), consistent with that required for the value in use ('VIU') calculation.

5. As part of the amendment, BC209A was included in IAS 36, which states:

   'The Board noted that the disclosures that IAS 36 requires when value in use is used to determine recoverable amount differ from those required when fair value less costs to sell is used. These differing requirements appear inconsistent when a similar valuation methodology (discounted cash flows) has been used. Therefore, as part of *Improvements to IFRSs* issued in May 2008, the Board decided to require the same disclosures for fair value less costs to sell and value in use when discounted cash flows are used to estimate recoverable amount.'

The issue

6. The new submission received (to be found in Appendix B) requests an amendment to paragraph 130(g) of IAS 36, which deals with the disclosures of material impairment losses recognised or reversed, to 'harmonise disclosure requirements'.

7. IAS 36 specifies different disclosure requirements for CGUs containing goodwill and indefinite-life intangibles compared with the disclosures required

for material impairments. The 2008 improvement addressed inconsistent disclosure requirements for calculation of the recoverable amounts for CGUs containing goodwill and indefinite-life intangibles.

8. The new submission asserts that the disclosure requirements currently in IAS 36 in respect of the use of discounted cash flows are inconsistent, for material impairments. The proposed amendment, similar to that made to paragraph 134(e) in 2008, seeks to require equivalent disclosures when discounted cash flows are used in calculating either FVLCTS or VIU.

9. Paragraph 130 of IAS 36 currently states:

> ‘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.
>
> (c) for an individual asset:
>
> (i) the nature of the asset; and
>
> (ii) if the entity reports segment information in accordance with IFRS 8, the reportable segment to which the asset belongs.
>
> (d) for a cash-generating unit:
>
> (i) a description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reportable segment as defined in IFRS 8);
>
> (ii) the amount of the impairment loss recognised or reversed by class of assets and, if the entity reports segment information in accordance with IFRS 8, by reportable segment; and
>
> (iii) if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit’s recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.
>
> (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).
>
> (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.‘

10. The submission identifies that disclosure of discount rates used in the discounted cash flow calculation is required only when the recoverable amount if determined using VIU. The submission therefore proposes an amendment to paragraph 130(g) as follows:

> ‘if recoverable amount is ~~value in use~~ based on a discounted cash flow model, the discount rate(s) used in the current estimate and previous estimate (if any) of ~~value in use~~ such model.’

Analysis of the issue

11. The staff understands the point of the request, and thinks it is a valid issue. However, the staff think that perhaps amending paragraph 130(g) to remove direct reference to VIU could be confusing.

12. The staff suggest leaving paragraph 130(g) as it currently stands, and amending paragraph (f), as follows:

> (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). If fair value less costs to sell is determined using discounted cash flow projections, the discount rate(s) used in the current estimate and previous estimate (if any).

13. The staff think that the proposed amendment will ensure that the disclosures are consistent when discounted cash flows are used in calculating both FVLCTS and VIU.

Staff recommendation

14. The staff recommend that the proposed amendment in paragraph 12 is made to IAS 36, as part of the *Annual Improvements* project. This recommendation is subject to the successful assessment of the proposed amendment against the current and proposed *Annual Improvements* criteria – see analysis below.

Annual Improvements criteria assessment

Assessment against the proposed new criteria

15. The IFRS Foundation has exposed for public comments proposed enhanced criteria for issues to be included in *Annual Improvements* as part of an amendment to the Due Process Handbook. The comment period ends 30 November 2010.

16. The staff proposes an assessment of the inclusion of the issue against the proposed enhanced criteria reproduced in full below. Note that all criteria (a)-(d) must be met to qualify for inclusion in annual improvements:

Proposed new criteria	Staff assessment of the proposed amendment
(a) The proposed amendment has one or both of the following characteristics: (i) clarifying—the proposed amendment would improve IFRSs by: • clarifying unclear wording in existing IFRSs, or • providing guidance where an absence of guidance is causing concern. A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle. (ii) correcting—the proposed amendment would improve IFRSs by: • resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirement should be applied, or • addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs. A correcting amendment does not propose a new principle or a change to an existing principle, but may create an exception from an existing principle.	(a) The proposed amendment provides clarification of the disclosures required where discounted cash flows have been used to calculate recoverable amounts. Discounted cash flow calculations require judgment. The staff think it would be useful to require consistent disclosures for VIU and FVLCTS when this methodology is used.
(b) The proposed amendment has a narrow and well-defined purpose, ie the consequences of the proposed change have been considered sufficiently and identified.	(b) The staff think the proposed amendment has a narrow and well-defined purpose – it is limited to instances where discounted cash flows are used to calculate recoverable amounts. No consequential amendments are considered necessary.
(c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach agreement on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.	(c) The staff think that if the Interpretations Committee reach a conclusion on a timely basis, it is likely that the Board will do the same.
(d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a	(d) There is no current of planned Board project to review IAS 36.

pressing need to make the amendment sooner than the project would.	

17. Following the analysis in the table above, in the staff's opinion, the proposed amendment satisfies the *Annual Improvements* criteria.

Questions for the Committee
1. Does the Committee agree with the staff's recommendation to amend IAS 36 as proposed in paragraph 14? 2. Does the Committee agree with the inclusion of the proposed amendment in the Annual Improvements cycle for 2010-2012? 3. Does the Committee have any comments on the wording of the proposed amendment?

Appendix A – Draft amendment to IAS 36 *Impairment of Assets*

A1 This appendix includes drafting of the proposed amendment. It is based on the text included in the most recently issued standards (including the *Improvements to IFRSs* issued in May 2010). New text is underlined and deleted text is struck through.

Proposed amendment to IAS 36 Impairment of Assets

Paragraph 130(f) is amended (new text is underlined).

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.

(c) for an individual asset:

(i) the nature of the asset; and

(ii) if the entity reports segment information in accordance with IFRS 8,the reportable segment to which the asset belongs.

(d) for a cash-generating unit:

(i) a description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a
reportable segment as defined in IFRS 8);

(ii) the amount of the impairment loss recognised or reversed by class of assets and, if the entity reports segment information in accordance with IFRS 8, by reportable segment; and

(iii) if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.

(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). <u>If fair value less costs to sell is determined using discounted cash flow projections, the discount rate(s) used in the current estimate and previous estimate (if any).</u>

(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.

Transitional provisions and effective date

140G <u>*Improvements to IFRSs* issued in [date] amended paragraph 130(f). An entity shall apply this amendment for annual periods beginning on or after 1 January 2013. Earlier application is permitted.</u>

Basis for Conclusions on proposed amendment to IAS 36 *Impairment of Assets*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Changes as a result of *Improvements to IFRSs* (2012)

BC1 The Board noted that the disclosures that IAS 36 requires in paragraph 130, when value in use is used to determine recoverable amount, differ from those required when fair value less costs to sell is used. These differing requirements appear inconsistent when a similar valuation methodology (discounted cash flows) has been used. Therefore, as part of *Improvements to IFRSs* issued in [month] 2012, the Board decided to require the same disclosures for fair value less costs to sell and value in use when discounted cash flows are used to estimate recoverable amount.

Appendix B – Request for inclusion in the *Annual Improvements* project

A1. The staff received the following Interpretations Committee request. All information has been copied without modification, except for details that would identify the submitter of the request.

A2. **IAS 36 p.130(g): Harmonise impairment related disclosures between FVLCTS and VIU**

As part of the May 2008 annual improvements, amendments to IAS 36.134(e) were made to harmonise the disclosure requirements for discounted cash flow models used to determine FVLCTS with those for VIU. Along the same lines, an additional harmonisation should be considered to IAS 36.130(g) related to the disclosures of material impairment losses recognised or reversed.

Proposed edits to IAS 36.130(g):
"(g) if recoverable amount is ~~value in use~~ based on a discounted cash flow model, the discount rate(s) used in the current estimate and previous estimate (if any) of ~~value in use~~ such model."

Appendix C – Extract from *Improvements to IFRS* issued in May 2008

Amendment to International Accounting Standard 36 *Impairment of Assets*

Paragraph 134(e) is amended (new text is underlined and deleted text is struck through). Paragraph 140C is added.

Disclosure

Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives

134 An entity shall disclose the information required by (a)–(f) for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:

(e) if the unit's (group of units') recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit (group of units), the following information shall also be disclosed:

(i) a description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.

(ii) a description of management's approach to determining the value~~(s)~~ <u>(or values)</u> assigned to each key assumption, whether those value~~(s)~~ reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.

<u>If fair value less costs to sell is determined using discounted cash flow projections, the following information shall also be disclosed:</u>

<u>(iii) the period over which management has projected cash flows.</u>

<u>(iv) the growth rate used to extrapolate cash flow projections.</u>

(v) the discount rate(s) applied to the cash flow projections.

Transitional provisions and effective date

140C Paragraph 134(e) was amended by *Improvements to IFRSs* issued in May 2008. An entity shall apply that amendment for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.