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IFRS Interpretations Committee
1st Floor
30 Cannon Street
London
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29 October 2010

Dear Sirs;

Tentative agenda decisions relating to:

IAS 36 Impairment of Assets — Calculation of value in use

IAS 36 Impairment of assets – Accounting for impairment testing of goodwill when non controlling interests (NCI) are recognised

We are responding to the above tentative agenda decisions, published in the September 2010 edition of the IFRS Interpretations Committee Update, on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the tentative agenda decision. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

1. IAS 36 Impairment of Assets — Calculation of value in use

We agree with the decision of the IFRS Interpretations Committee ("IFRS IC") not to take this item onto its agenda. We encourage the IFRS IC, however, to clarify the reasons for its conclusion so that the published rejection notice does not have unintended consequences.

The draft rejection notice explains that the use of a dividend discount model (DDM) would "*rarely be appropriate when calculating the value in use of a CGU in consolidated financial statements*". We believe that this wording is inappropriate. There are various types of DDMs in use and some may comply with the requirements of IAS 36 for value in use calculations; particularly models that consider the future cash flows expected to be available for distribution to the shareholders and not just cash flows from future dividends. The current wording of the rejection appears to prohibit companies using DDMs for the purposes of their consolidated financial statements regardless of whether the DDM in question is compliant with IAS 36. We recommend that the wording of the rejection notice is updated to avoid prohibiting the use of a DDM model that is compliant with IAS 36.The draft rejection also states that "*the cash flows associated with liabilities are usually excluded from the value in use of a CGU*". We do not believe that this sentence adds substance to the rejection notice and we suggest that it is deleted.

We have proposed some revisions to the draft rejection notice in the attached Appendix clarifying these two points.

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2. IAS 36 Impairment of assets – Accounting for impairment testing of goodwill when non controlling interests (NCI) are recognised.

We disagree with the decision of the IFRS IC not to recommend this item for inclusion in Annual Improvements. We believe that the issue can and should be dealt with as part of the Annual Improvement projects to allow for resolution in a more timely manner than waiting for the outcome of an IFRS 3 post-implementation review.

We believe that the requirements of IAS 36 (appendix C6 and C7 and Example 7A of IAS 36) may result in an inappropriate allocation of impairment losses between the Parent and the NCI. This is most likely when a reporting entity has acquired less than 100% of a business and paid a significant control premium. The impairment loss, in this situation, would be allocated between the Parent and the NCI on the same basis as that on which profits and losses are allocated. However, the goodwill associated with the NCI is proportionately less than the goodwill associated with the Parent as a result of the control premium. Paragraphs C6 and C7 of IAS 36 do not allow an impairment loss to be allocated between the parent and NCI on the basis of relative goodwill but requires losses to be allocated on the same basis as profit and loss. The loss allocated to the NCI, therefore, may exceed the amount of the goodwill associated with the NCI. A disproportionate recognition of impairment losses between the parent and the NCI can also occur when there have been multiple increases or decreases in the interest of the NCI.

The draft rejection notice explains that the IFRS IC decided not to propose an amendment for inclusion in Annual Improvements, "because of concerns relating to possible unintended consequences of making any changes". We believe that maintaining the current wording of IAS 36 may lead to recognising inappropriate allocations of impairment losses between the parent and the NCI. We believe that amending appendix C to allow an entity to allocate goodwill impairments either on the basis of the allocation of profit or loss or another appropriate method would address the problem described above and would not have further unintended consequences. We believe that the Staff proposal would achieve this and meets the draft definition of an Annual Improvement in the amendments to the due process handbook. We therefore encourage the IFRS IC to reconsider whether this could be included in Annual Improvements.

If you have any questions in relation to this letter please do not hesitate to contact Mary Dolson (020 7804 2930).

Yours faithfully

PricewaterhouseCoopers LLP

Appendix

IAS 36 *Impairment of Assets* — Calculation of value in use

The Committee received a request for clarification on whether estimated future cash flows expected to arise from dividends that are calculated using dividend discount models (DDMs), are an appropriate cash flow projection when determining the calculation of value in use of a cash-generating unit (CGU) in accordance with paragraph 33 of IAS 36.

The Committee noted that paragraphs 30–57 in IAS 36 provide guidance on the principles to be applied in calculating value in use of a CGU. The Committee observed that calculations using a DDM which values shares at the discounted value of future dividend payments may be appropriate when calculating value in use of a single asset, for example when determining whether an investment is impaired in the separate financial statements of an entity. ~~For example, the cash flows associated with liabilities are usually excluded from the value in use of a CGU.~~ In some cases, a DDM may determine a value for a company on the basis of future cash flows that are expected to be available for distribution to the shareholders (rather than future cash flows from dividends), discounted at a rate expressing the cost of capital. Such a model could be used to calculate the value in use of a CGU in consolidated financial statements provided the model was consistent with the requirements of IAS 36.

The Committee noted that the current principles in IAS 36 relating to the calculation of value in use of a CGU are clear and that any guidance it could provide would be in the nature of application guidance. Consequently, the Committee [decided] not to add the issue to its agenda.