STAFF PAPER

September 2013

IFRS Interpretations Committee Meeting

Project	**IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**
Paper topic	Reversal of impairment losses relating to goodwill recognised for a disposal group

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Introduction

1. As mentioned in Agenda Paper 10, at its July 2012 meeting, the IFRS Interpretations Committee ('the Interpretations Committee') decided to revisit the two issues related to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. This Agenda Paper addresses, out of the two issues, an issue of reversal of impairment losses relating to goodwill recognised for a disposal group.

2. The objective of this Agenda Paper is to provide the Interpretations Committee with updates on the results of our outreach and staff analysis on this issue and to make a recommendation to the Interpretations Committee.

3. This Agenda Paper is organised as follows;

   (a) Summary of the issue

   (b) Previous discussion by the Interpretations Committee and the IASB

   (c) Summary of outreach conducted

   (d) Staff analysis

   (e) Agenda criteria assessment

(f) Staff recommendation

(g) Appendix A– Proposed wording for tentative agenda decision

(h) Appendix B– Extracts of IASB and IFRIC Updates.

Summary of the issue

4. In November 2009, the Interpretations Committee received a request relating to the IFRS 5 requirement to measure a disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell (‘FVLCTS’).

5. The request relates to a situation in which an impairment loss recorded for a disposal group that is classified as held for sale subsequently reverses. Specifically, the question focuses on whether an impairment loss relating to goodwill can be reversed.

6. The submitter identifies that application of the guidance in IFRS 5 relating to the reversal of an impairment loss for a disposal group classified as held for sale has led to diversity in practice.

7. The submitter views that this diversity in practice arises because of contradictory wording in the guidance on recognition of impairment losses and reversals in IFRS 5, including references that are made to IAS 36 *Impairment of Assets*.

8. As a result, the submitter observes following views:

   (a) **View 1**—reversal of an impairment loss ***should not*** be recognised if it relates to the reversal of previously impaired goodwill of the disposal group classified as held for sale.

   (b) **View 2**—reversal of an impairment loss ***should be*** recognised if it relates to the reversal of previously impaired goodwill of the disposal group classified as held for sale. This reversal may include:

      (i) impairment losses recognised for goodwill during the period in which the disposal group is classified as held for sale; or

(ii) all impairment losses recognised for goodwill in previous periods, including those that were recognised prior to the disposal group being classified as held for sale.

Previous discussion by the Interpretations Committee and the IASB

9. The Interpretations Committee discussed this issue twice, in March 2010 and May 2010[1].

10. At these meetings, the Interpretations Committee noted that there could be a potential conflict between the guidance in paragraphs 22 and 23 of IFRS 5. These paragraphs relate to the recognition and allocation of the reversal of an impairment loss for a disposal group.

11. View 1 is supported by paragraph 23 of IFRS 5, which states that:

> The impairment loss (or any subsequent gain) recognised for a disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this IFRS, in the order of allocation set out in paragraphs 104(a) and (b) and 122 of IAS 36 (as revised in 2004).

12. Paragraph 23 of IFRS 5 requires application in accordance with paragraph 122 of IAS 36 in determining how the reversal of an impairment loss is allocated to the non-current assets of a disposal group. Paragraph 122 of IAS 36 states that:

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[1] March 2010 IFRS IC meeting:

- Agenda Paper 6B http://www.ifrs.org/Meetings/Documents/IFRICMar2010
- *IFRIC Update* http://media.ifrs.org/2013/IFRIC/March/IFRIC-Update-March-2013.pdf

May 2010 IFRS IC meeting:

- Agenda Paper 4B http://www.ifrs.org/Meetings/Documents/IFRICMay2010
- *IFRIC Update* http://media.ifrs.org/2013/IFRIC/May/IFRICUpdateMay2013.pdf

> A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit, **except for goodwill**, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognised in accordance with **paragraph 119**. (emphasis added)

13. Paragraph 119 of IAS 36 states that:

> 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 IFRS (for example, the revaluation model in IAS 16). (…) (emphasis added)

14. Guidance on the reversal of an impairment loss for goodwill is set out in paragraph 124 of IAS 36, which states that:

> An impairment loss recognised for goodwill **shall not** be reversed in a subsequent period. (emphasis added)

15. On the other hand, View 2 is supported by paragraph 22 of IFRS 5. This paragraph only restricts the reversal of an impairment loss for a disposal group to:

    (i) the extent that has not been recognised through the remeasurement of assets and liabilities of the disposal group under other IFRSs; but

    (ii) not in excess of the cumulative impairment loss that has been recognised on the non-current assets within the scope of the measurement requirements of IFRS 5.

16. Goodwill is within the scope of the measurement requirements of IFRS 5 and is therefore included in "the cumulative impairment loss" as described in paragraph 22 of IFRS 5. Consequently, a reversal of an impairment loss relating to goodwill should be recognised when applying this paragraph.

17. View 2 is also supported by the fact that IFRS 5 includes multiple cross-references to IAS 36 but omits any reference to the requirement in

paragraph 124 of IAS 36, which states that an impairment loss recognised for goodwill shall not be reversed in a subsequent period.

18. In addition, View 1 and View 2 are compared in terms of an underlying principle that:

    (i) View 1 is based on the idea that a disposal group comprises separate assets and liabilities. Consequently, these separate assets and liabilities within the disposal group are subject to different measurement requirements, either within IFRS 5 or in other IFRSs as described in paragraph 5 of IFRS 5; whereas

    (ii) View 2 is that a disposal group should be considered as one single asset or one single liability. Consequently, the recognition and measurement requirements should be applied to the disposal group as whole, rather than reflecting the nature of individual assets and liabilities included within the disposal group.

19. At its March 2010 meeting, the Interpretations Committee observed that the issue may not be resolved efficiently within the confines of existing Standards and the Framework and that it is not probable that the Interpretations Committee will be able to reach a consensus on a timely basis. One of the bases for this observation was that this issue may raise 'unit of account' questions, as indicated in paragraph 18 of this paper, relating to whether a disposal group should be viewed as comprising one single asset or a combination of separate assest and liabilities.

20. The Interpretations Committee also noted the decision taken by the IASB in December 2009 not to add a project to its agenda to address IFRS 5 with regard to measurement of impairment and reversal thereof at that time. Consequently, the Interpretations Committee decided not to add this issue to its agenda and recommended that the IASB should address this issue in a Post-implementation Review of IFRS 5.

Summary of outreach conducted

21. In August 2012, we requested information from the International Forum of Accounting Standard-Setters (IFASS) to help us assess the issues against the Interpretations Committee's agenda criteria. Specifically, we asked:

(i) Have you encountered these issues in your jurisdiction? If yes, how common are they?

(ii) What is the prevalent practice applied in your jurisdiction when faced with these issues? Why was that approach taken?

(iii) Did you observe diversity in practice? If yes, please explain the basis for your view.

22. The breakdown from the IFASS is as follows:

Geographical area	Number of responses
Asia-Oceania	5
Europe	3
Latin America (including Mexico)	1
North America	1
Africa	1
	11

23. No respondents stated that the issue is common in their jurisdictions. Four respondents said that they had observed some cases, but only rarely or occasionally, and six respondents said that they had not seen any instances of it.

24. Respondents said that they have seen, or expect to see, diversity in practice. In particular, one respondent considered two scenarios: (1) a disposal group is still classified in the held for sale category when the reversal of impairment loss is made and (2) a disposal group has been removed from the held for sale

category when the reversal of impairment loss is made. The respondent said that it has encountered only the latter scenario, in which there is diversity in practice.

25. In July 2013, we also requested information from securities regulators asking the same questions as the ones to the IFASS. Three securities regulators responded.

26. Two regulators noted that the respondents to this outreach request commented that they had encountered this issue but it was not frequent. Another regulator said that it had not encountered the issue.

27. The regulators noted that the common practice is not to reverse the impairment loss relating to goodwill. However, they noted that some jurisdictions observe diversity in practice.

Staff analysis

Analysis 1: does IFRS 5 require an entity to identify whether a reversal of an impairment loss relates to the reversal of previously impaired goodwill in the disposal group?

28. We note that the submitter's issue is based on the understanding that IFRS 5 requires an entity to identify whether a reversal of an impairment loss relates to the reversal of previously impaired goodwill in the disposal group. Based on this understanding, the submitter asks whether the reversal of an impairment relating to goodwill in the disposal group should not be recognised (View 1) or should be recognised (View 2). The submitter also referred that View 1 is supported by paragraph 23 of IFRS 5 and View 2 is supported by paragraph 22 of IFRS 5, indicating a potential conflict between the requirements in IFRS 5.

29. We think that the submitter's issue cannot be addressed because we think that the understanding implicit in the issue, as mentioned in the preceding paragraph, is not relevant in the context of the requirements of IFRS 5. We think that neither paragraph 22 of IFRS 5 nor paragraph 23 of IFRS 5 require

an entity to identify whether a reversal of an impairment loss relates to the reversal of previously impaired goodwill in the disposal group. The reasons are as follows.

30. First, we note paragraph 15 and 15A of IFRS 5. These paragraphs require an entity to measure a disposal group as if the disposal group is a single unit of account. This measurement principle also applies when measuring an impairment loss and when measuring a reversal of an impairment loss. Paragraphs 15 and 15A of IFRS 5 state that:

> 15 An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.
>
> 15A An entity shall measure a non-current asset (or disposal group) classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute.

31. We then note paragraph 22 of IFRS 5. It restricts the reversal of an impairment loss for a disposal group to the cumulative impairment loss recognised on the non-current assets within the scope of IFRS 5. We also note that non-current assets within the scope of IFRS include goodwill. This is because goodwill is not included in the list of non-current assets that are excluded from applying IFRS 5, as specified in paragraph 5 of IFRS 5. Paragraphs 5 and 22 of IFRS 5 state that:

> 5 The measurement provisions of this IFRS do not apply to the following assets, which are covered by the IFRSs listed, either as individual assets or as part of a disposal group:
>
> (a) deferred tax assets (IAS 12 *Income Taxes*).
>
> (b) assets arising from employee benefits (IAS 19 *Employee Benefits*).
>
> (c) financial assets within the scope of IFRS 9 *Financial Instruments*.

(d) non-current assets that are accounted for in accordance with the fair value model in IAS 40 *Investment Property*.

(e) non-current assets that are measured at fair value less costs to sell in accordance with IAS 41 *Agriculture*.

(f) contractual rights under insurance contracts as defined in IFRS 4 *Insurance Contracts*.

22 An entity shall recognise a gain for any subsequent increase in fair value less costs to sell of a disposal group:

(a) to the extent that has not been recognised in accordance with paragraph 19[2]; but

(b) not in excess of **the cumulative impairment loss** that has been recognised, either in accordance with this IFRS or previously in accordance with IAS 36, on the non-current assets **within the scope of the measurement requirements of this IFRS**. (emphasis added)

32. We note that paragraph 22 of IFRS 5 sets a limit on the extent to which any subsequent increase in FVLCTS of a disposal group can be recognised. However, it does not describe whether an impairment loss previously recognised on goodwill should be reversed or not. Although 'the cumulative impairment loss' mentioned in paragraph 22(b) of IFRS 5 may include an impairment loss recognised on goodwill, that does not necessarily mean that the impairment loss previously recognised on goodwill can be reversed for any subsequent increase in FVLCTS of the disposal group. This is because an entity would be required to measure a disposal group as if it is a single unit of account in accordance with paragraph 15 and 15A of IFRS 5 and then to apply paragraph 22 of IFRS 5. In other words, paragraph 22 of IFRS 5 does not

[2] Paragraph 19 of IFRS 5 states that:
On subsequent remeasurement of a disposal group, the carrying amounts of any assets and liabilities that are not within the scope of the measurement requirements of this IFRS, but are included in a disposal group classified as held for sale, shall be remeasured in accordance with applicable IFRSs before the fair value less costs to sell of the disposal group is remeasured.

require an entity to identify whether any subsequent increase in FVLCTS of the disposal group relates to the reversal of an impairment loss previously recognised on goodwill.

33. Second, we note paragraph 23 of IFRS 5. It requires application in accordance with paragraph 122 of IAS 36 in determining how the reversal of an impairment loss is **allocated** to the non-current assets of a disposal group. Paragraph 23 of IFRS 5 and paragraph 122 of IAS 36 are as follows:

> 23 The impairment loss (or any subsequent gain) recognised for a disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group that are within the scope of the measurement requirements of this IFRS, **in the order of allocation set out in** paragraphs 104(a) and (b) and **122 of IAS 36** (as revised in 2004). (emphasis added)
>
> 122 A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit, **except for goodwill**, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognised in accordance with paragraph 119. (emphasis added)

34. We note that paragraph 23 of IFRS 5 deals with the issue of how any subsequent increase in FVLCTS, which is recognised as a gain in accordance with paragraph 22 of IFRS 5, should be allocated. We note that in accordance with paragraph 122 of IAS 36 (as referred to by paragraph 23 of IFRS 5), the reversal of an impairment loss should not be allocated to goodwill but to other non-current assets in the disposal group. Consequently, paragraph 23 of IFRS 5 does not relate to the issue of whether an impairment loss relating to goodwill should be reversed or not.

35. In addition, we note paragraph 24 of IFRS 5. This paragraph requires that a gain or loss not previously recognised by the date of the sale of a disposal group should be recognised at the date of derecognition. This could imply

that although a reversal of a previous impairment loss recognised on goodwill is included in the measurement of FVLCTS for a disposal group, it will not be recognised until the disposal group is disposed of and derecognised. Paragraph 24 of IFRS 5 states that:

> 24 A gain or loss not previously recognised by the date of the sale of a non-current asset (or disposal group) shall be recognised at the date of derecognition. Requirements relating to derecognition are set out in:
>
> (a) paragraphs 67–72 of IAS 16 (as revised in 2003) for property, plant and equipment, and
>
> (b) paragraphs 112–117 of IAS 38 Intangible Assets (as revised in 2004) for intangible assets.

36. On the basis of our analysis above, we think that the submitter's issue is not relevant in the context of the requirements of IFRS 5. **We therefore support neither View 1** (an impairment loss relating to goodwill should not be reversed) **nor View 2** (an impairment loss relating to goodwill should be reversed)**.**

Analysis 2: 'Unit of account' issue

37. In addition, we think that the conclusions of our analysis in this agenda paper and agenda paper 10A can also relate to the 'unit of account' issue mentioned in paragraph 18 of this paper. We think that essentially, IFRS 5 is based on the concept of 'one single asset or one single liability' because it requires a disposal group to be measured at the lower of its carrying amount and FVLCTS. However, we think that in terms of the recognition and the reversal of an impairment loss, IFRS 5 is based on the concept of 'separate assets and liabilities'. This is because (1) IFRS 5 requires the impairment loss in a disposal group to be allocated only to the non-current assets in the group that are within the scope of the measurement requirements of IFRS 5 in accordance with paragraph 23 of IFRS 5 (as analysed in agenda paper 10A) and (2) requires the reversal of an impairment loss to be allocated to non-

current assets, except for goodwill, in the disposal group (as analysed in this agenda paper).

Staff conclusion

38. On the basis of the analyses above, our view can be summarised that:

(a) the amount of the reversal of an impairment loss for a disposal group is measured at the lower or its carrying amount and FVLCTS as if the disposal group is a single unit of account. This means that IFRS 5 does not require an entity to attribute the source of the reversal to any individual assets or liabilities because the reversal is measured at the level of the disposal group (relevant paragraphs of IFRS 5 are paragraphs15 and 15A);

(b) the amount of the reversal of an impairment loss for a disposal group that can be recognised is, however, limited by:

(i) the amount already recognised by applying other IFRSs to measure the assets and liabilities that are not within the scope of the measurement requirements of IFRS 5; and

(ii) the remainder of the reversal, after applying (i), is further limited to the cumulative impairment loss previously recognised in respect of the non-current assets within the scope of the measurement requirements of IFRS 5 (relevant paragraph of IFRS 5 is paragraph 22);

(c) when recognising the amount of the reversal of an impairment loss identified in (ii) above, it is allocated to those non-current assets in the disposal group that are within the scope of the measurement requirements of IFRS 5 pro rata with the carrying amount of those assets, except that no reversal is allocated to goodwill (relevant paragraph of IFRS 5 is paragraph 23); and

(d) any reversal of an impairment loss that had been calculated in (a) above, but which is not recognised after applying (b) and (c) above, is not recognised until the disposal group is disposed of and derecognised. This could mean that the measurement of FVLCTS for a disposal group does include a reversal of a previously impaired goodwill, but this will not be recognised until the disposal group is disposed of and derecognised (relevant paragraph of IFRS 5 is paragraph 24).

Question 1 for the Interpretations Committee
1. Does the Interpretations Committee agree with staff analysis of how the reversal of an impairment loss for a disposal group which includes goodwill should be accounted for?

Agenda criteria assessment

39. The staff's assessment of the agenda criteria[3] is as follows:

Source of issue	
Issues could include: the identification of divergent practices that have emerged for accounting for particular transactions, cases of doubt about the appropriate accounting treatment for a particular circumstance or concerns expressed by investors about poorly specified disclosure requirements (5.14).	
Criteria	
We should address issues(5.16):	

[3] These criteria can be found in the IASB and IFRS Interpretations Committee Due Process Handbook as indicated in the paragraphs below.

that have widespread effect and have, or are expected to have, a material effect on those affected;	**No.** The feedback from outreach activity indicated that the issue is not common. A majority of respondents stated that they have not encountered any instance of it.
where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and	**No.** In our outreach activity, some respondents stated that there is some diversity in practice. At the same time, some others stated that they would expect to see diversity in practice on the basis of potential inconsistency between paragraphs 22 and 23 of IFRS 5. We think that the existing guidance in IFRS 5 is clear as we showed in the staff analysis of this paper. However, because paragraph 23 of IFRS 5 requires referring to IAS 36 in order to understand the requirement (ie no reversal of an impairment loss relating to goodwill), stakeholders may find it confusing. However, because the issue does not appear to be widespread, we think that an amendment to the Standard is not justified. If the Interpretations Committee think it would be helpful for the limited circumstances when this issue does arise, the staff analysis could be presented in the agenda decision.
that can be resolved efficiently within the confines of existing IFRSs and the *Conceptual Framework for Financial Reporting*.	**N/A**

In addition:	
Is the issue sufficiently narrow in scope that the Interpretations Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process that would be required when making changes to IFRSs (5.17)?	**N/A**
Will the solution developed by the Interpretations Committee be effective for a reasonable time period (5.21)? (The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified)..	**N/A**

Staff recommendation

40. On the basis of the staff analysis above, we recommend that the Interpretations Committee should not take this issue onto its agenda.

41. We have set out proposed wording for tentative agenda decision in **Appendix A**.

Questions 2 and 3 for the Interpretations Committee
2. Does the Interpretations Committee agree with staff recommendation that the Interpretations Committee should not take this issue onto its agenda? 3. Does the Interpretations Committee agree with the draft tentative agenda decision as set out in Appendix A?

Appendix A—Proposed wording for tentative agenda decision

A1. We propose the following wording for the tentative agenda decision.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—Reversal of impairment losses relating to goodwill recognised for a disposal group

The Interpretations Committee discussed the issue of reversal of impairment losses relating to goodwill recognised for a disposal group. The issue is about whether the reversal of an impairment loss should be recognised if it relates to the reversal of previously impaired goodwill of the disposal group classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The Interpretations Committee noted that the guidance in IFRS 5 does not require the identification of the source of a reversal of impairment loss of a disposal group. Instead IFRS 5 requires an entity to measure a disposal group as a single unit. The recognition of this impairment reversal of the disposal group is however limited in paragraph 22 of IFRS 5 by:

(a) the amount by which the impairment reversal has been recognised when measuring the assets and liabilities of the disposal group that are not within the scope of the measurement requirements of IFRS 5; and then

(b) the amount of the cumulative impairment loss previously recognised on the non-current assets in the disposal group that are within the scope of the measurement requirements of IFRS 5.

The Interpretations Committee also noted that paragraph 23 of IFRS 5 deals with the issue of how any subsequent increase in FVLCTS, which is recognised as a gain in accordance with paragraph 22 of IFRS 5, should be allocated. In accordance with paragraph 23 of IFRS 5 (and thereby paragraph 122 of IAS 36 *Impairment Assets*), the reversal of an impairment loss should not be allocated to goodwill but to other non-current assets in the disposal group.

On the basis of the analysis above, the Interpretations Committee concluded that in the light of the existing requirements of IFRS 5, an Interpretation or an amendment to the Standard was not necessary. Consequently, the IFRS Interpretations Committee [decided] not to add this issue to its agenda.

Appendix B—Extracts of IASB and IFRIC Updates

IFRIC Update March 2010

<u>Tentative agenda decisions</u>

The IFRIC received a request for guidance on whether an impairment loss for a disposal group classified as held for sale can be reversed if it relates to the reversal of an impairment loss recognised for goodwill.

The IFRIC noted a potential conflict between the guidance in paragraph 22 and paragraph 23 of IFRS 5 relating to the recognition and allocation of the reversal of an impairment loss for a disposal group when it relates to goodwill. However, the IFRIC also observed that the issue may not be resolved efficiently within the confines of existing IFRSs and the *Framework* and that it is not probable that the IFRIC will be able to reach a consensus on a timely basis.

The IFRIC also noted the decision taken by the Board in December 2009 not to add a project to its agenda to address IFRS 5 impairment measurement and reversal issues at this time. Consequently, the IFRIC [decided] not to add this issue to its agenda and recommended that the Board address this issue in a post-implementation review of IFRS 5.

IFRIC Update May 2010

<u>IFRS Interpretations Committee agenda decisions</u>

The Committee received a request for guidance on whether an impairment loss for a disposal group classified as held for sale can be reversed if it relates to the reversal of an impairment loss recognised for goodwill.

The Committee noted a potential conflict between the guidance in paragraph 22 and paragraph 23 of IFRS 5 relating to the recognition and allocation of the reversal of an impairment loss for a disposal group when it relates to goodwill. However, the Committee also observed that the issue may not be resolved efficiently within the confines of existing IFRSs and the Framework and that it is not probable that the Committee will be able to reach a consensus on a timely basis.

The Committee also noted the decision taken by the Board in December 2009 not to add a project to its agenda to address IFRS 5 impairment measurement and reversal issues at this time. Consequently, the Committee decided not to add this issue to its agenda and recommended that the Board address this issue in a post-implementation review of IFRS 5.

IASB Update May 2010

The Board discussed the IFRS Interpretations Committee's meeting on 6 and 7 May 2010. Details of the meeting were published in *IFRIC Update*.