Impairment of an Equity Security (IAS 39 *Financial Instruments: Recognition and Measurement*)—June 2005

[Paragraphs 41A–41C were added to IAS 28 as a consequential amendment when the Board issued IFRS 9. The requirements in paragraphs 41A-41C are similar to those in paragraphs 59–61 of IAS 39.]

The IFRIC considered whether to develop guidance on how to determine whether under paragraph 61 of IAS 39 (as revised in March 2004) [now paragraph 41C of IAS 28] there has been a 'significant or prolonged decline' in the fair value of an equity instrument below its cost in the situation when an impairment loss has previously been recognised for an investment classified as available for sale.

The IFRIC decided not to develop any guidance on this issue. The IFRIC noted that IAS 39 referred to original cost on initial recognition and did not regard a prior impairment as having established a new cost basis. The IFRIC also noted that IAS 39 Implementation Guidance E.4.9 states that further declines in value after an impairment loss is recognised in profit or loss are also recognised in profit or loss. Therefore, for an equity instrument for which a prior impairment loss has been recognised, 'significant' should be evaluated against the original cost at initial recognition and 'prolonged' should be evaluated against the period in which the fair value of the investment has been below original cost at initial recognition.

The IFRIC was of the view that IAS 39 is clear on these points when all of the evidence in the requirements and the implementation guidance of IAS 39 are viewed together.