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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting:	**18 July 2007, London**
Project:	**Annual Improvements**
Subject:	**Disclosure of estimates used to measure recoverable amount (Agenda paper 5C)**

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1. The staff has identified that the following issue would be most appropriately resolved via the annual improvements process.

   Issue: Should the disclosure requirements in IAS 36, *Impairment of Assets*, relating to the estimates used in measuring fair value less costs to sell be aligned with those relating to the estimates used in measuring value in use?

Staff recommendation

2. The staff recommends that the Board:

   - should add this issue to the annual improvements project; and
   - should amend IAS 36 as proposed in paragraph 10 of this paper.

Background

3. The staff has been notified of a perceived inconsistency in the disclosure requirements in IAS 36.

4. IAS 36 requires that the recoverable amount of an asset or cash generating unit (CGU) is the higher of fair value less costs to sell and value in use.

5. Value in use is defined in paragraph 6 of IAS 36 as 'the present value of the future cash flows expected to be derived from an asset or cash generating unit'. Accordingly the disclosures that are required when recoverable amount is measured by reference to value in use focus on:

- The key assumptions on which the cash flow projections have been based
- The period over which the cash flows have been projected are based on budgets/forecasts
- The growth rate used to extrapolate cash flows
- The discount rate applied to cash flow projections

6. Paragraphs 25-26 of IAS 36 identify the price in a binding sales contract and the price in an active market as the best sources of evidence for determining fair value less costs to sell. In the absence of either a binding sales contract or an active market, valuation methodologies such as the use of discounted cash flow models are typically used to determine fair value less costs to sell. However, the disclosures required when recoverable amount is based on fair value less costs to sell focus on:

- A description of key assumptions used
- A description of the approach to determining the values assigned to each key assumption

7. The disclosures that IAS 36 requires differ significantly between those required when value in use is used to determine recoverable amount and those required when fair value less costs to sell is used. This appears inconsistent for those occasions when a similar valuation methodology (discounted cash flows) has been used.

Staff recommendation

8. The staff recommends that consistent disclosures between value in use and fair value less costs to sell be required when similar valuation methodologies (discounted cash flows) are used.

9. **Does the Board agree?**

Drafting

10. The staff recommends that IAS 36 should be amended as follows:

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:

…

(d) if the unit's (group of units') recoverable amount is based on value in use:

(i) a description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. 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) 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.

(iii) the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified.

(iv) the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent

budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated.

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

(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) 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 disclosures required by paragraph 134 (d) shall also be given.**</u>

…

Basis for Conclusions on Proposed Amendments to IAS 36 Impairment of Assets

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Disclosure

BC1 The Board identified a perceived inconsistency in the disclosures requirements in IAS 36.

BC2 The Board noted that the disclosures that IAS 36 requires differ significantly between those required when value in use is used to determine recoverable amount and those required when fair value less costs to sell is used. This appears inconsistent for those occasions when a similar valuation methodology (discounted cash flows) has been used.

BC3 The Board decided to require the same disclosures be given for fair value less costs to sell as are required for value in use when fair value less costs to sell is calculated using discounted cash flows.