30 Cannon Street, London EC4M 6XH, United Kingdom
Phone: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: http://www.iasb.org

International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting:	**December 2008, London**
Project:	**IFRS for Private Entities (formerly IFRS for SMEs)**
Subject:	**Redeliberation of Approach for Impairment of Non-financial Assets (Section 26) (Agenda Paper 5B)**

---

1. For the December 2008 Board meeting, the private entities agenda papers are organised as follows:
   - **Agenda Paper 5** – Overview
   - **Agenda Paper 5A** – Outstanding issues on financial statement presentation
   - **Agenda Paper 5B** – Redeliberation of approach for impairment of non-financial assets (Section 26)
     - **Attachment to 5B** – Redraft of Section 26
   - **Agenda Paper 5C** – Redeliberation of approach for financial instruments (Section 11)
     - **Attachment to 5C** – Partial redraft of Section 11 (Section11A)

Section 26 issues (Issues 26.1- 26.3 considered together)

2. **Reason for revisiting these issues.** At the July 2008 meeting, the staff presented three interrelated issues to the Board concerning the appropriate approach for impairment of non-financial assets. They are summarised below, with the Board's decisions:

   a. **Modify the general approach for impairment of non-financial assets to include 'recoverable amount' and 'value in use' (Issue 26.1).** The

Exposure Draft *IFRS for Small and Medium-sized Entities* (ED) had proposed that once an impairment is indicated, the asset should be written down to fair value less costs to sell. In July 2008, the Board agreed with the staff recommendation that the approach for determining the impairment loss once an impairment is indicated should be similar to IAS 36 *Impairment of Assets.* Therefore, Section 26 should include the concepts of 'recoverable amount' and 'value in use'. In addition, it should be clarified, in a way similar to IAS 36, that if it is not possible to determine fair value less costs to sell for an asset because there is no basis for making a reliable estimate of that amount, then the entity must use the asset's value in use as its recoverable amount.

b. **Simplify the requirements for assessing impairment of goodwill (Issue 26.2).** In July 2008, the Board discussed the requirements for allocating goodwill for impairment testing, with a view to providing relief for entities that do not manage their business on the basis of cash-generating units (CGUs). Specifically, at the July 2008 meeting, the Board's guidance to the staff was as follows:

- If the reporting entity has the systems to make the allocation of goodwill to CGUs and manages its business on the basis of CGUs, then it should allocate goodwill to those CGUs (or groups of CGUs) that are expected to benefit from the synergies of the combination.
- Otherwise:
  - If the reporting entity has not integrated an acquired business into the group, the acquired business should be measured as a whole when testing impairment of the goodwill arising on on acquisition of that business. (ie determine recoverable amount of the acquired business including goodwill).
  - If the reporting entity has integrated an acquired business into the group, then the group should be measured as a whole when testing impairment of the goodwill arising on acquisition of that business.

c. **Introduce the concept of cash-generating unit (Issue 26.3).** The ED had used the terms 'groups of assets' and 'components of the entity' without clear definition. The Board asked the staff to rewrite Section 26 using terminology consistent with IAS 36 and provide for assessment of impairment for CGUs in a manner similar to, but simplified from, IAS 36.

3. The Board asked the staff to rewrite Section 26 on the basis of the discussion and present a recommendation at a future Board meeting. That rewrite is presented in the attachment to this agenda paper.

4. **Views expressed in the comment letters, field tests, and Working Group recommendations.** The views in the comment letters, field tests, and Working Group recommendations regarding these three issues were set out in Agenda Paper 8A for the July 2008 Board meeting and are not repeated here. Briefly summarised, the vast majority of those respondents addressing these issues recommended using recoverable amount and value in use, introducing the concept of CGU, and simplifying the requirements for assessing the impairment of goodwill. However, with regard to the latter, the commentators proposed few specific simplifications.

5. **Staff recommendation.** Staff believe that the rewrite of Section 26 in the attachment to this agenda paper reflects the foregoing Board decisions. The staff proposal for the impairment test for goodwill of private entities is consistent with IAS 36 except staff have added the following paragraph:

> 26.30 If goodwill cannot be allocated to individual or groups of cash-generating units on a non-arbitrary basis, then for the purposes of testing goodwill the entity shall test the impairment of goodwill by determining the recoverable amount of
>
> (a) the acquired entity in its entirety if the goodwill relates to an acquired entity which has not been integrated. Integrated means the acquired business has been restructured or dissolved into the reporting entity or other subsidiaries
>
> (b) the entire group of entities, excluding any entities that have not been integrated if the goodwill relates to an entity which has been integrated.
>
> In applying this paragraph, an entity will need to separate goodwill into goodwill relating to entities that have been integrated and goodwill relating to entities that have not been integrated. Also the entity should follow the requirements for cash-generating units in this section when calculating the recoverable amount of, and allocating impairment losses and reversals to assets belonging to, the acquired entity or the entire group of entities

6. Paragraph 26.30 was developed based on the recommendations of the Board in July 2008 (see paragraph 2(b) above) and addresses concerns from respondents that the proposed requirements for impairment of goodwill in the ED are difficult to apply.

7. Respondents to the ED noted that one of the main complexities relating to impairment of goodwill was the proposed requirement, in all cases, to determine the fair value of the CGUs to which goodwill is allocated (note, the term 'component' was used in the ED). This is addressed in the attachment to this agenda paper by the introduction of the notion of recoverable amount, as decided by the Board, and also new paragraph 26.13, which is based on IAS 36.

> 26.13 If it is not possible to determine fair value less costs to sell for an asset because there is no basis for making a reliable estimate of that amount, the entity shall use the value in use of the asset as its recoverable amount.

8. In summary, the redraft of Section 26 in the attachment to this agenda paper is essentially in line with IAS 36 except:

- An indicator approach to impairment is used for goodwill (as proposed in the ED).
- An additional paragraph (26.30) has been added to provide relief to entities that cannot allocate goodwill to CGUs (as explained above).

Question 26.2
Does the Board agree that the revised requirements for impairment of goodwill appropriately reflect the Board's decisions at the July 2008 meeting and are appropriate for private entities? If not, what modifications should be made?

Overall Question for Revised Section 26 (Issues 26.1, 26.2, and 26.3)
Does the Board agree that the rewrite of section 26 both appropriately reflects the Board's decisions at the July 2008 meeting (outlined in paragraph 2 above) and is appropriate for private entities? If not, what modifications should be made?