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

International Accounting Standards Board

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.
These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting:	**11 March 2008, London**
Project:	**Annual Improvements Process**
Subject:	**ED comment analysis: IAS 36 Disclosure of estimates used to determine recoverable amount (Question 27) (Agenda Paper 8D)**

INTRODUCTION

1. IAS 36 *Impairment of Assets*, among other things, requires two different types of disclosures for goodwill and intangible assets with indefinite useful lives – one when an asset is measured by reference to value in use, and the other when an asset is measured by reference to fair value less costs to sell. The Board noted that the disclosure would be inconsistent even if a similar methodology, eg discounted cash flows, is used to compute value in use and fair value costs to sell. Therefore, the Board proposed that IAS 36 should require the same disclosures when similar valuation methodologies are used to determine value in use and fair value less costs to sell.

COMMENT LETTER ANALYSIS AND STAFF RECOMMENDATION

2. Nearly every respondent to this proposal agreed with it. Therefore, the staff recommends that the Board proceed with the amendment to IAS 36 to eliminate the inconsistency in disclosure requirements. *The staff does not intend to*

discuss this issue at the Board meeting. However, the staff wants to raise two other issues for your attention. They do not require Board's decisions. If the Board disagrees with the staff proposals, please raise them during the meeting.

Issue 1: Redraft the proposed amendments

3. A respondent noted that the proposed amendment as worded was confusing. The ED proposed:

134 An entity shall disclose the information required ….

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

(e) if the unit's (group of units') recoverable amount is based on fair value less costs to sell, ….

<u>**if the fair value less costs to sell is determined using discounted cash flow projections, the disclosures required by (d) shall be given instead of those in (e)(i) and (ii).**</u>

Staff recommendation: Unfortunately, the disclosure requirements in paragraph 134(d) were drafted specifically for applicants of the value in use method. Many of the disclosure requirements in that paragraph are not applicable for a fair value less costs to sell method (see Appendix 1 for the disclosure requirements in paragraphs 134(d) and (e)). Therefore, the staff proposes to redraft the disclosure requirements in paragraph (e) to meet the spirit of the Board's intention. Please refer to Appendix II.

Issue 2

4. A respondent suggested that the Board's proposal be expanded to include a consistent disclosure when a material impairment is based on a recoverable amount determined using discounted cash flow to estimate either fair value less costs to sell in paragraph 36.130(f) or value in use in IAS 36.130(g).

Staff recommendation: The staff does not recommend that the Board expand the scope as part of this annual improvements project. Rather, the staff proposes that it will consider whether this suggestion should be brought to the Board as part of the future annual improvements project.

Appendix I *Extract from the ED*

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)~~ <u>or values</u> or values 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) or values 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 (d) shall be given instead of those in (e)(i) and (ii).</u>

Appendix II: Proposed amendments for IAS 36 by Staff

Staff proposals to amend IAS 36 are underlined. The staff does not propose to amend the basis for conclusions as exposed.

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)~~ or values or values 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~~(s)~~ or values 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) or values 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.

If fair value less costs to sell is determined using discounted cash flow projections, the following information shall also be disclosed:

(iii) the period over which management has projected cash flows.

(iv) the growth rate used to extrapolate cash flow projections.

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