



Project	IAS 36 <i>Impairment of Assets</i>
Topic	Interaction with transition requirements of IFRS 8 <i>Operating Segments</i>

Introduction

Background

1. In January 2010, the IFRIC published a tentative agenda decision not to add to its agenda a request for guidance on the transition arrangements in IFRS 8 *Operating Segments* and its interaction with IAS 36 *Impairment of Assets*.
2. As published in the January 2010 IFRIC Update:

The IFRIC received a request for guidance on the transition requirements in IFRS 8 *Operating Segments* and its interaction with IAS 36 *Impairment of Assets*.

The IASB made a consequential amendment to IAS 36 when it issued IFRS 8 in November 2006. The consequential amendment replaced the reference to 'segments' (as determined in accordance with IAS 14 *Reporting Segments*) to 'operating segments' (as determined in accordance with IFRS 8). In particular, paragraph 80(b) of IAS 36 was amended to refer to IFRS 8 when setting the limit for the aggregation of cash-generating units when testing for goodwill impairment. Previously, the limit had been set by reference to segments identified by IAS 14. The IFRIC noted that when entities test goodwill for impairment in the first year of adoption of IFRS 8, some entities may need to recognise an impairment loss for goodwill, at least in part because of these changes in the segment definitions.

The question asked of the IFRIC is whether any incremental goodwill impairment loss (that would have been recognised in a prior period if cash-generating units had been grouped by reference to IFRS 8) determined as a result of retrospective application of the change from IAS 14 to IFRS 8 should be presented as a prior period adjustment or a current period event.

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in IFRIC *Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in IASB *Update*.

IASB Staff paper

The IFRIC noted that IFRS 8 is effective for annual periods beginning on or after 1 January 2009 and is therefore applicable for entities with annual periods ending 31 December 2009 and thereafter. Based on the required due process procedures included in the IFRIC *Due Process Handbook*, the IFRIC would not be able to provide guidance on a timely basis. Consequently, the IFRIC [decided] not to add the issue to its agenda.

3. One comment letter was received. The response agreed with the IFRIC's decision not to take this item onto its agenda; however, the response stated, in part:

...we request that the IFRIC includes in the final agenda decision an explicit reference to the paragraph 19(b) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which sets out the requirements for changes in accounting policy changes upon initial application of an IFRS that does not include specific transitional provisions.

Objective of this paper

4. The objective of this paper is to obtain an IFRIC [final] decision on this issue.

Analysis and recommendation

Analysis of comments received

5. The respondent requested that an explicit reference to paragraph 19(b) of IAS 8 be included within the final agenda decision. Paragraph 19 of IAS 8 states:

Subject to paragraph 23:

- (a) **an entity shall account for a change in accounting policy resulting from the initial application of an IFRS in accordance with the specific transitional provisions, if any, in that IFRS; and**
- (b) **when an entity changes an accounting policy upon initial application of an IFRS that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.**

6. The [January 2010 IFRIC Agenda Paper 12](#)¹ referred to paragraph 19(b) of IAS 8 in presenting the two distinct views that were emerging in practice. Paragraph 13 of Agenda Paper 12 introduces the two views and states, in part:

- (a) **View A – Prior period adjustment** – The amendment to IAS 36 when IFRS 8 was introduced did not include any transition provisions. Accordingly, paragraph 19b of IAS 8 requires that the change in accounting policy is accounted for retrospectively. Thus any impairment charge arising from the change in the definition of segments shall be recognised as a prior period adjustment.
- (b) **View B – Current period adjustment** – Any impairment charge recognised following the change in IFRS 8 should be recognised as a current year charge in profit or loss. There is no change in the policy for testing goodwill for impairment. Accordingly, IAS 36 continues to require that goodwill is tested for impairment at the level at which it is monitored for internal management purposes. The only change is in a limit on how that policy is applied.

7. In the staff’s opinion of the January 2010 IFRIC Meeting and the tentative agenda decision published in the January 2010 IFRIC Update, the IFRIC did not formally conclude on the technical merits and appropriateness (or lack thereof) of either View A or View B presented in Agenda Paper 12. Rather, the IFRIC focused on the timeframe of the issue, its immediate applicability and the inability of the IFRIC to be able to provide authoritative guidance on a timely basis.

Staff recommendation

- 8. In the staff’s opinion, the editorial suggestion included in the comment letter should not be incorporated into the final Agenda Decision.
- 9. Based on the one comment letter received and the above analysis, the **staff recommends that the tentative agenda decision be finalised with no change from the Tentative Agenda Decision published in the January 2010 IFRIC Update.**

¹ Observer Note available at <http://www.iasb.org/NR/rdonlyres/5EE96AF0-FD8C-418E-A6D5-9AA9DD884940/0/1001ap12obsIFRICIAS36IFRS8Transition.pdf>

Questions – Finalisation of IFRIC Agenda Decision

Question 1 – The staff recommends that the IFRIC finalise its Tentative Agenda Decision not to add this issue to its agenda. Does the IFRIC agree with the staff's recommendation?

Question 2 – Appendix A includes the staff's proposed wording for the final Agenda Decision. Does the IFRIC agree with the proposed final Agenda Decision wording?

Appendix A – IFRIC Final Agenda Decision DRAFTING

A1. The staff proposes the following wording for the **final** agenda decision.

(Deleted text is struck through.)

IAS 36 *Impairment of Assets* – Interaction with transition requirements of IFRS 8 *Operating Segments*

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