



Project	IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>
Topic	Reversal of disposal group impairment losses relating to goodwill

Purpose of this paper

1. The purpose of the paper is to respond to a request received by the IFRIC for additional guidance on the recognition of the reversal of disposal group impairment losses relating to goodwill.
2. The request identifies concerns about the clarity of guidance in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 36 *Impairment of Assets* on whether an impairment loss for a disposal group can be reversed if it relates to the reversal of an impairment loss that had been recognised for goodwill in a previous period.
3. This paper:
 - (a) provides background information on the requests received;
 - (b) analyses the issues raised within the context of IFRSs and, because IFRS 5 was a convergence project with the Financial Accounting Standards Board (FASB), U.S. GAAP;
 - (c) makes a staff recommendation for addressing the issues; and
 - (d) asks the IFRIC whether they agree with the staff recommendation.

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*.

Background information

4. In November 2009, the IFRIC received a request relating to the IFRS 5 requirement to measure a disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell (FVLCTS).
5. The request focuses on situations in which an impairment loss recorded against a disposal group that is classified as held for sale subsequently reverses. Specifically, if the impairment loss had been allocated against goodwill in a previous period, can the reversal be recognised?
6. The request identifies that application of the guidance in IFRS 5 relating to the reversal of an impairment loss for a disposal group classified as held for sale has led to diversity in practice.
7. This diversity in practice arises because of contradictory wording in the guidance on recognition of impairment losses and reversals in IFRS 5, including references that are made to IAS 36.
8. As a result, the following views have arisen:
 - (a) View 1 – reversal of an impairment loss **should not** be recognised if it relates to the reversal of previously impaired goodwill of the disposal group classified as held for sale.
 - (b) View 2 - reversal of an impairment loss **should** be recognised if it relates to the reversal of previously impaired goodwill of the disposal group classified as held for sale. This reversal may include:
 - (i) impairment losses recognised for goodwill during the period in which the disposal group is classified as held for sale; or,
 - (ii) all impairment losses recognised for goodwill in previous periods, including those that were recognised prior to the disposal group being classified as held for sale.

Staff analysis

View 1 – Impairment loss reversal should not be recognised

9. View 1 is that a reversal of an impairment loss **should not** be recognised if it relates to the reversal of previously impaired goodwill of a disposal group that is classified as held for sale.
10. This view would only support recognition of a reversal of impairment losses relating to a disposal group if they relate to non-current assets (**other than goodwill**) of the disposal group.
11. View 1 is supported by the following arguments:
 - (a) The recognition guidance in IFRS 5.23, which, in determining how the reversal of an impairment loss is allocated to the non-current assets of a disposal group, requires application in accordance with IAS 36.122. It:
 - (i) states that:

reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit, *except for goodwill*, pro rata with the carrying amounts of those assets. (emphasis added)

indicating that any reversal of an impairment loss relating to goodwill would need to be allocated to other non-current assets within a disposal group, and,
 - (ii) refers to the recognition guidance in IAS 36.119, which states that a reversal of an impairment loss for an asset **other than goodwill** shall be recognised immediately in profit or loss.
 - (b) The recognition principle in IAS 36.124, which states that:

An impairment loss recognised for goodwill *shall not* be reversed in a subsequent period. (emphasis added)

- (c) The view that a disposal group comprises separate assets and liabilities. These separate assets and liabilities within the disposal group are subject to different measurement requirements, either within IFRS 5 or in other IFRSs, as described in IFRS 5.5.

View 2 - Impairment loss reversal should be recognised

- 12. View 2 is that a reversal of an impairment loss **should** be recognised if it relates to the reversal of previously impaired goodwill of a disposal group that is classified as held for sale.
- 13. This view is supported by the following arguments:
 - (a) The recognition guidance in IFRS 5.22, which only restricts the reversal of an impairment loss for a disposal group to:
 - (i) the extent that is has not been recognised through the remeasurement of assets and liabilities of the disposal group under other IFRSs; but
 - (ii) not in excess of the cumulative impairment loss that has been recognised on the non-current assets within the scope of the measurement requirements of IFRS 5 (which **includes** goodwill).
 - (b) IFRS 5 includes multiple cross-references to IAS 36, but these exclude reference to the requirement in IAS 36.124 that an impairment loss recognised for goodwill **shall not** be reversed in a subsequent period.
 - (c) The measurement principle in IFRS 5.15 that:

An entity shall measure a disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell.
 - (d) A view that a disposal group should be considered as one single asset or one single liability. Consequently, the recognition and measurement requirements should be applied to the disposal group as whole, rather than reflecting the nature of individual assets and liabilities included within the disposal group.

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This would be consistent with the approach in paragraph 33 of IAS 28 *Investments in Associates* relating to impairment of associates, including the associated notional goodwill.

Extent to which impairment losses recognised for goodwill may be reversed

14. If View 2 is taken, and it is determined that the reversal of previously impaired goodwill of a disposal group that is classified as held for sale can be recognised, the question arises as to **which** previous goodwill impairments may be reversed.
15. Some believe that all impairment losses recognised in previous periods, including those recognised prior to the disposal group being classified as held for sale, may be reversed during the period in which the disposal group is held for sale.
16. They point out that this is consistent with IFRS 5.21 and IFRS 5.BC46, which state that:

Recognising a gain for the reversal of an impairment that occurred before the classification of the asset as held for sale is consistent with the requirement in IAS 36 to recognise reversals of impairment.
17. Others believe that only impairment losses recognised for goodwill during the period in which the disposal group is classified as held for sale may be reversed.
18. They argue that IAS 36 prevents reversal in a subsequent period of an impairment loss recognised for goodwill prior to the disposal group being classified as held for sale.
19. Consequently, they believe the reversal should only apply to goodwill impairments of the disposal group that were recognised during the period in which it is classified as held for sale.

U.S. GAAP Considerations

20. IFRS 5 was a convergence project with the FASB. The staff have therefore considered how this situation would be accounted for in accordance with US GAAP.
21. These considerations reflect the Board's comments in IFRS 5.BC41, stating that:

The Board considered whether the allocation of an impairment loss for a disposal group should be consistent with the requirements of IAS 36 or with the requirements of SFAS 144. The Board concluded that it would be simplest to require the same allocation as is required by IAS 36 for cash-generating units. Although this is different from SFAS 144, the disposal group as a whole will be measured at the same amount.

22. Before codification, the primary sources of US GAAP guidance on this matter was found in FAS 142 *Goodwill and Other Intangible Assets* and FAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*, which state:

- (a) in ASC 350-30-35-18 (formerly FAS 142, paragraph 17), in relation to goodwill:

subsequent reversal of previously recognized impairment loss is prohibited.

This is consistent with IAS 36.124.

- (b) in ASC 360-10-35-40 (formerly FAS 144, paragraph 37) that in relation to measuring a disposal group classified as held for sale:

A gain shall be recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative loss previously recognized (for a write down to fair value less costs to sell).

This is consistent with IFRS 5.21.

- (c) in ASC 360-10-35-39 (formerly FAS 144, paragraph 36) that:

The carrying amounts of any assets that are not covered by [FAS 144/this Subtopic], *including goodwill*, that are included in a disposal group classified as held for sale shall be adjusted in accordance with other applicable [GAAP] (emphasis added)

and in ASC 360-10-35-20 (formerly FAS 144, paragraph 15), in relation to long-lived assets:

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Restoration of a previously recognized impairment loss is prohibited.

This provides additional clarity on the issues in this agenda paper that are not included within current IFRSs.

23. In discussions, the FASB staff expressed their views that the current guidance in US GAAP above is clear on this matter and that a reversal of an impairment loss **should not** be recognised if it relates to the reversal of previously impaired goodwill of the disposal group.

Staff recommendation

24. In 2009¹, both the IFRIC (in May) and the IASB (in July) discussed the recognition of impairment losses for a disposal group that is classified as held for sale.
25. Both identified a conflict within IFRS 5 which may lead to a disposal group being measured at an amount that is different from the lower of its carrying amount and FVLCTS.
26. Consequently, the Board initially proposed an amendment to IFRS 5 requiring that a disposal group must always be measured at the lower of its carrying amount and FVLCTS.
27. This reflected their view that a disposal group should be viewed as **one single asset or one single liability**, rather than as a group of separate assets and liabilities.
28. However, in December 2009² the Board decided not to proceed with the amendment, believing the issue to be significant enough to require a separate project that did not fit in with the Board's current work plan.

¹ [IASB Board Meeting 21 July 2009](#) (Agenda Paper 3B)

² [December 2009 IASB Update.pdf](#) (Discontinued Operations – Possible annual improvements)

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29. The Board also noted other concerns identified by constituents subsequent to the July 2009 Board meeting relating to the reversal of impairment losses, including the issues discussed in this agenda paper relating to goodwill.
30. Although the Board did not proceed with the amendment requiring a disposal group to always be measured at the lower of its carrying amount and FVLCTS, the staff believe that the views expressed by both the IFRIC and the Board in relation to that issue are relevant to the issues in this agenda paper.
31. The staff believe that it would be consistent with these previous views of the IFRIC and the Board that all impairment losses recognised in previous periods, including those recognised prior to the disposal group being classified as held for sale, should be reversed during the period the disposal group is held for sale.
32. The staff believe that this approach, consistent with View 2 above, reflects IFRS 5s:
 - (a) principle that a disposal group classified as held for sale shall be measured at the lower of its carrying amount and FVLTCs;
 - (b) measurement scope, which includes goodwill; and
 - (c) guidance on recognition (rather than allocation) of impairment losses and reversals.
33. However, the staff do not believe that this preferred conceptual approach is clearly supported by IFRS 5 and other IFRSs. Instead the staff argues that the guidance in current IFRSs, although unclear, provides greater support for View 1 and a restriction on the reversal of previously impaired goodwill.
34. However, the staff have concerns about recommending that the IFRIC amend or interpret current IFRS to reflect the preferred staff approach of View 2, because of:
 - (a) the decision taken by the Board in December 2009 not to proceed with the proposed amendment to IFRS 5;

- (b) inconsistencies between this approach and the allocation requirements of IFRS 5 and IAS 36, which would require reversal of an impairment loss relating to goodwill to be allocated to non-current assets of the disposal group **except** goodwill, and
- (c) the creation of a departure from US GAAP.

Agenda criteria assessment for the IFRIC

35. The staff's preliminary assessment of the agenda criteria is as follows:

(a) *The issue is widespread and has practical relevance.*

Yes. The staff believe that the issue has widespread implications and practical relevance. Specifically, the current improvements in market conditions may lead to the future reversal of impairments that were recognised in recent reporting periods.

(b) *The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice). The IFRIC will not add an item to its agenda if IFRSs are clear, with the result that divergent interpretations are not expected in practice.*

Yes. The staff believe that there are significantly divergent interpretations in practice as a result of a lack of clarity of the guidance in IFRS 5, and that additional divergence may emerge.

This divergence in interpretations is reflected in the guidance published by the global accounting firms.

(c) *Financial reporting would be improved through elimination of the diverse reporting methods.*

Yes. The staff believe that financial reporting would be improved through elimination of the diverse reporting methods.

(d) *The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process.*

No. The staff believe that the most efficient way of resolving the issue would be through amendments to current IFRSs and not through the interpretation process.

(e) *It is probable that the IFRIC will be able to reach a consensus on the issue on a timely basis.*

No. The staff are concerned that the IFRIC may reach a conclusion that this issue is related to the matter discussed in the May 2009 meeting, relating to the disposal group being measured at an amount different to the lower of its carrying amount and FVLCTS.

As a result, this issue may raise similar unit of account questions relating to whether a disposal group should be viewed as comprising of one single asset or a combination of separate assets and liabilities.

The staff believe that this is especially likely if the IFRIC agree with the staff recommendation that View 2, rather than View 1, is preferred.

As a result, the IFRIC may have concerns with issuing guidance to address the issue because of the December 2009 Board decision not to proceed with proposed amendments to IFRS 5.

(f) *If the issue relates to a current or planned IASB project, there is a pressing need to provide guidance sooner than would be expected from the IASB's activities. The IFRIC will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the IFRIC requires to complete its due process.*

No. In the December 2009 meeting, the IASB decided for the time being not to take on a project to amend IFRS 5. The staff believe that the IFRIC could complete its due process before the Board make any amendments to IFRS 5.

36. Based on the assessment of the agenda criteria, the staff recommend that IFRIC do not add the issue to its interpretations agenda.

Annual Improvements criteria assessment

37. The staff believe that the most efficient way to clarify guidance on recognition of the reversal of disposal group impairment losses relating to goodwill would be through the Annual Improvements Project (AIP) 2009 - 2011 Cycle.
38. The staff believe that this would **not** be appropriate if the IFRIC support the preferred conceptual approach of the staff in View 2 due to the decision made by the Board in December 2009.

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39. However the staff would recommend amendment through the AIP 2009 – 2011 Cycle if the IFRIC support the approach in View 1, and thereby conclude that a reversal of an impairment loss should not be recognised if it relates to the reversal of previously impaired goodwill of the disposal group classified as held for sale. The benefit of making such an amendment would be the reduction in diversity in practice.
40. If the IFRIC support an amendment to IFRS 5 to reflect View 1 in this agenda paper, the staff propose that an entity shall apply it retrospectively for annual periods beginning on or after 1 January 2012. Earlier application shall be permitted. If an entity applies the amendment for an earlier period, it shall disclose that fact.
41. The staff do not believe that additional transition guidance would be required for first-time adoption of IFRS or that consequential amendments are needed.

Question for the IFRIC

1. Do the IFRIC agree with the staff's recommendation not to add this issue to its agenda? If not, how does the IFRIC recommend the staff to proceed?
2. Do the IFRIC have any comments on the proposed wording for the tentative agenda decision in Appendix A?
3. If the IFRIC disagree with the staff recommendation, and instead, support View 1 that a reversal of an impairment loss should not be recognised if it relates to the reversal of previously impaired goodwill of the disposal group classified as held for sale, does the IFRIC:
 - (a) agree that the issue should be added to the Annual Improvements Project?
 - (b) have any comments on the proposed amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* in Appendix B and C?
 - (c) agree with the proposed effective date and transition?

Appendix A – Proposed wording for agenda decision

The below tentative agenda decision is proposed if the IFRIC support the staff recommendation in the agenda paper.

**IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* –
Reversal of disposal group impairment losses relating to goodwill**

The IFRIC received a request for guidance on whether an impairment loss for a disposal group classified as held for sale can be reversed if it relates to the reversal of an impairment loss recognised for goodwill in a previous period.

The IFRIC noted that paragraph 22 of IFRS 5 restricts the reversal of an impairment loss for a disposal group to an amount not in excess of the cumulative impairment loss that has been recognised on the non-current assets within the scope of the measurement requirements of IFRS 5 (which includes goodwill). However, paragraph 23 of IFRS 5 requires the reversal of an impairment loss to be allocated in accordance with paragraph 122 of IAS 36 *Impairment of Assets*. This guidance states that reversal of an impairment loss shall be allocated to assets *except for goodwill*. (emphasis added)

The IFRIC observed that the current guidance in IFRSs in relation to the issue is unclear. However, the IFRIC also observed that the issue may not be resolved efficiently within the confines of existing IFRSs and the Framework and that it is not probable that the IFRIC will be able to reach a consensus on a timely basis.

The IFRIC also noted the decision taken by the Board in December 2009 not to add a project to its agenda to address IFRS 5 impairment measurement and reversal issues at this time. Consequently, the IFRIC [decided] not to add this issue to its agenda.

Appendix B – Proposed amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

The below amendment is proposed only if the IFRIC support View 1 in the agenda paper.

Paragraph 23A is added.

- 23A An impairment loss recognised for goodwill in a disposal group classified as held for sale shall not be reversed in a subsequent period.

Appendix C – Basis for Conclusions on proposed amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Reversal of disposal group impairment losses relating to goodwill

- BC1 A request was received for additional guidance on whether an impairment loss for a disposal group classified as held for sale can be reversed if it relates to the reversal of an impairment loss recognised for goodwill in a previous period.
- BC2 The Board noted that two views exist in current practice. The first view is that a reversal of an impairment loss should not be reversed if it relates to the reversal of previously impaired goodwill of a disposal group that is classified as held for sale. This is because paragraph 23 of IFRS 5 requires the reversal of an impairment loss to be allocated in accordance with paragraph 122 of IAS 36 *Impairment of Assets*. This guidance states that reversal of an impairment loss shall be allocated to assets except for goodwill.
- BC3 The second view is that a reversal of an impairment loss should be recognised if it relates to the reversal of previously-impaired goodwill of a disposal group that is classified as held for sale. This reflects paragraph 22 of IFRS 5, which only restricts the reversal of an impairment loss for a disposal group to an amount not in excess of the cumulative impairment loss that has been recognised on the non-current assets within the scope of the measurement requirements of IFRS 5 (which includes goodwill).
- BC4 The Board agreed with the first view, and proposes to clarify that an impairment loss recognised for goodwill in a disposal group classified as held for sale shall not be reversed in a subsequent period.

Appendix D – Agenda request

IFRIC POTENTIAL AGENDA ITEM REQUEST

The issue:

IFRS 5.22(b) states that an entity shall recognize a gain for any subsequent increase in fair value less costs to sell of a disposal group that does not exceed the cumulative impairment loss that has been recognized, either in accordance with IFRS 5 or previously in accordance with IAS 36 on the non-current assets within the scope of the measurement requirements of IFRS 5.

It is commonly understood that previously recorded impairment losses can be reversed on tangible and intangible assets that are within the scope of IAS 16 and IAS 38, subject to any required revisions for additional depreciation and amortization. However, it is unclear how this guidance applies to impairments of goodwill.

Two questions have arisen around reversals of impairments of goodwill.

- Can impairment losses on goodwill that were recognized during the period that a disposal group was held for sale be reversed? And,
- Can impairment losses on goodwill recognized under IAS 36 before the disposal group met the criteria to be classified as held for sale be reversed?

Current practice:

There may be divergent accounting practice as the literature can be read in two different ways. This is demonstrated by the different published interpretations from the major accounting firms.

Factors supporting the exclusion of goodwill impairment

Although IFRS 5.23 does not explicitly refer to IAS 36.123, IAS 36 contains guidance that is more specific and therefore takes precedence over IFRS 5. Following IAS 36.134, goodwill impairments are not reversed.

Factors supporting the inclusion of goodwill impairment

IFRS 5.22 requires recognition of a gain for any subsequent increase in fair value less cost to sell of a disposal group. Gain recognition is limited to the cumulative impairment loss that has been previously recognized on the non-current assets within the measurement scope of IFRS 5, which includes goodwill. IFRS 5.23 then gives guidance on how to allocate this amount to the carrying amount of the non-current assets and refers to IAS 36.122., which states that a reversal of impairment losses cannot be allocated to goodwill. IFRS 5.23 does not refer to IAS 36.123, which restricts

the amounts to be allocated to assets other than goodwill. Consequently, it would seem that the total impairment loss (including the part that is attributable to goodwill) can be allocated to the other non-current assets in the disposal group that are in the measurement scope of IFRS 5, even if such allocation would result in carrying amounts above those that would be recognized if the asset were not classified as held for sale.

This reasoning is also supported by the fact that after assets and liabilities of a disposal group that are not within the scope of measurement of the standard are re-measured according to the respective standards, the fair value of the disposal group (as a whole) is re-measured. (IFRS 5.19) Accordingly, as IFRS 5.23 also only refers to IAS 36.104 and not to 36.105 one would allocate impairment losses to non-current assets in a disposal group without considering the floor introduced in IAS 36.105, if necessary.

Reasons for the IFRIC to address the issue:

a) Is the issue widespread and practical?

The issue is a currently observed situation and might arise whenever a disposal group is classified as "held for sale" during an accounting period and has not been sold by the end of the accounting period.

b) Does the issue involve significantly divergent interpretations (either emerging or already existing in practice)?

Yes, as mentioned above.

c) Would financial reporting be improved through elimination of the diversity?

Financial reporting will be improved by eliminating diversity in practice.

d) Is the issue sufficiently narrow in scope to be capable of interpretation within the confines of

IFRSs and the Framework for the Preparation and Presentation of Financial Statements, but not so narrow that it is inefficient to apply the interpretation process?

Yes, we believe that the issue is sufficiently narrow in order to be addressed by the IFRIC.

e) If the issue relates to a current or planned IASB project, is there a pressing need for guidance sooner than would be expected from the IASB project? (The IFRIC will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the IFRIC would require to complete its due process.)

N/A