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| Project | **Annual Improvements—2010-2012 cycle** |
| Topic | **IAS 36 *Impairment of Assets*—disclosure of the recoverable amount** |

## Introduction

1. The IFRS Interpretations Committee (the Committee) received a request to address an inconsistency in the disclosure requirements in IAS 36 *Impairment of Assets*, when the discounted cash flow model is used in the calculation of the recoverable amount.
2. The Committee discussed the issue at its meeting in November 2010. At that meeting, the Committee recommended that the Board should include a proposed amendment to paragraph 130(f) of IAS 36 within the next exposure draft of *Improvements to IFRSs*.

## Purpose of the paper

3. The purpose of this paper is to ask the Board whether it approves this annual improvement to IAS 36 paragraph 130(f) and IFRS 13 paragraph D86, which would have the effect of ensuring that the disclosure of the basis for determining the

recoverable amount is consistent when discounted cash flows are used in calculating both fair value less costs to sell ('FVLCTS')[1], and value in use ('VIU').

4. This paper will therefore:

   (a) provide background information and explain the issue;

   (b) make a recommendation for:

      (i) the proposed amendment to IAS 36 and IFRS 13 as presented in Appendix A and Appendix B respectively;

      (ii) an assessment of the proposed amendments against the criteria for inclusion in Annual Improvements; and

   (c) ask the Board whether they agree with the recommendation.

## Background information

5. An amendment to IAS 38 paragraph 134(e) was made in the *Annual Improvements* standard issued in May 2008. This amendment addressed an inconsistency in the disclosure requirements for circumstances where discounted cash flows were used to determine recoverable amounts for cash-generating units ('CGU's) that contain goodwill or intangible assets with indefinite useful lives. Specifically, the amendment brought the disclosures required in respect of FVLCTS in line with those required for VIU in circumstances where discounted cash flows are used to calculate FVLCTS. The same information is now required about the period over which the cash flows have been projected, the growth rate used to extrapolate the projections and the discount rate(s) applied to the projections, when discounted cash flows are used to calculate FVLCTS (paragraph 134(e)(iii)–(v)), consistently with that required for the VIU calculation.

6. As part of the amendment, BC209A was included in IAS 36, which states:

   'The Board noted that the disclosures that IAS 36 requires when value in use is used to determine recoverable amount differ from those required when fair value less costs to sell

[1] IFRS 13 *Fair Value Measurement* renamed FVLCTS to 'fair value less costs of disposal',

> is used. These differing requirements appear inconsistent when a similar valuation methodology (discounted cash flows) has been used. Therefore, as part of *Improvements to IFRSs* issued in May 2008, the Board decided to require the same disclosures for fair value less costs to sell and value in use when discounted cash flows are used to estimate recoverable amount.'

## The issue

7. The submission received by the Committee in 2010 requested an amendment be made to paragraph 130(g) of IAS 36, which deals with the disclosures of material impairment losses recognised or reversed, to 'harmonise disclosure requirements'.

8. IAS 36 specifies different disclosure requirements for CGUs containing goodwill and indefinite-life intangibles compared with the disclosures required for material impairments. The 2008 improvement addressed inconsistent disclosure requirements for calculation of the recoverable amounts for CGUs containing goodwill and indefinite-life intangibles. It did not address the disclosures required for material impairments.

9. The submission asserted that the disclosure requirements currently in IAS 36 with respect to the use of discounted cash flows are inconsistent, for material impairments. The proposed amendment, similar to that made to paragraph 134(e) in 2008, seeks to require equivalent disclosures when discounted cash flows are used in calculating either FVLCTS or VIU.

10. The submission identified that disclosure of discount rates used in the discounted cash flow calculation is required only when the recoverable amount is determined using VIU. The submission therefore proposed an amendment to paragraph 130(g) as follows:

> 'if recoverable amount is ~~value in use~~ <u>based on a discounted cash flow model</u>, the discount rate(s) used in the current estimate and previous estimate (if any) of ~~value in use~~ <u>such model</u>.'

11. After analysing the issue, we recommended to the Committee that amending paragraph 130(g) to remove the direct reference to VIU could be confusing. Consequently, we suggested to the Committee that paragraph 130(g) should remain

as it currently stands, and we suggested instead that paragraph (f) should be amended, as follows:

(f) if recoverable amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market). If fair value less costs to sell is determined using discounted cash flow projections, the discount rate(s) used in the current estimate and previous estimate (if any) shall be disclosed.

12. The Committee agreed with this recommendation.

13. Subsequent to the Committee's decision, IFRS 13 was issued in May 2011, and it amended paragraph 130(f) of IAS 36 as follows[2]:

> if recoverable amount is fair value less costs ~~to sell~~ of disposal, the basis used to ~~determine~~ measure fair value less costs ~~to sell~~ of disposal (such as whether fair value was ~~determined~~ measured by reference to a quoted price in an active market for an identical asset). An entity is not required to provide the disclosures required by IFRS 13.

14. IFRS 13 has an effective date of 1 January 2013, and it is expected that this proposed amendment would be effective on 1 July 2013. Therefore, we are recommending that the proposed amendment (using the relevant terminology now required by IFRS 13) be made to both the pre-IFRS 13 and the post-IFRS 13 version of paragraph 130(f) of IAS 36 (refer Appendix B for the amendment) so as to permit early adoption of the Annual Improvement without requiring early adoption of IFRS 13.

## *Annual Improvements* criteria assessment

15. For ease of reference the criteria are reproduced in full in Appendix C to this paper. We analyse below the proposed amendment against those criteria:

 *(a) The proposed amendment clarifies or corrects existing IFRSs.*

 The proposed amendment provides clarification of the disclosures required where discounted cash flows have been used to calculate recoverable amounts. Discounted cash flow calculations require

[2] Paragraph D86 of IFRS 13

judgement.  The staff thinks that it would be useful to require consistent disclosures for VIU and FVLCTS when this methodology is used.

(b) *The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.*

The staff think that the proposed amendment has a narrow and well-defined purpose—it is limited to instances where discounted cash flows are used to calculate recoverable amounts.  No consequential amendments are considered necessary

(c) *It is probable that the IASB will reach conclusion on the issue on a timely basis.  Inability to reach a conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.*

We believe that the IASB could reach a conclusion on a timely basis on this issue.

(d) *If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.*

The proposed improvement does not relate to an IFRS that is the subject of a current or planned project.

16. Consequently, we recommended to the Committee that the proposed amendment be made through Annual Improvements.  The Committee agreed with this recommendation.

## Transition provisions

17. We think that the proposed amendment should be applied prospectively as of the beginning of the annual period in which it is initially applied.  The amendment would not need to be applied to comparative information that is provided for periods before initial application of the amendment.

## Amendments to other IFRSs

18. We reviewed other IFRSs for possible consequences of the proposed improvements. We did not identify any other amendments to other standards that would be required.

## The Committee's recommendation to the Board

19. The Committee recommends that the Board should proceed with the proposed improvement to amend paragraph 130(f) of IAS 36 and paragraph D86 of IFRS 13.
20. If the Board agrees with the Committee's recommendation, we propose the draft amendments to paragraph 130(f) of IAS 36 and paragraph D86 of IFRS 13 as set out in Appendix A and Appendix B respectively.

| Question for the Board |
| --- |
| Does the Board agree with the Interpretations Committee's recommendation to amend paragraph 130(f) of IAS 36 and paragraph D86 of IFRS 13 through Annual Improvements? |

# Appendix A—Proposed improvement

## Proposed amendment to IAS 36 Impairment of Assets

Paragraph 130(f) is amended (new text is underlined) and paragraph 140H is added.

**130 An entity shall disclose the following for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit:**

**…**

**(f) if recoverable amount is fair value less costs of disposal, the basis used to measure fair value less costs of disposal (such as whether fair value was measured by reference to an active market). <u>If fair value less costs to sell is determined using discounted cash flow projections, an entity shall disclose the discount rate(s) used in the current estimate and previous estimate (if any).</u>**

**…**

## Transitional provisions and effective date

140H *Improvements to IFRSs* issued in [date] amended paragraph 130(f). An entity shall apply this amendment for annual periods beginning on or after 1 July 2013. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact. The amendment shall be applied prospectively as of the beginning of the annual period in which it is initially applied.

## Basis for Conclusions on proposed amendment to IAS 36 *Impairment of Assets*

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

## Changes as a result of *Improvements to IFRSs* (2012)

BC1 The Board noted that the disclosures that IAS 36 requires in paragraph 130, when value in use is used to determine recoverable amount, differ from those required when fair value less costs to sell is used. These differing requirements appear to be inconsistent when a similar valuation methodology (discounted cash flows) has been used. Consequently, the Board proposes to require the same disclosures for fair value less costs to sell and value in use when discounted cash flows are used to estimate recoverable amount.

# Appendix B—Amendments to other IFRSs

## Proposed amendment to IFRS 13 Fair Value Measurement

In paragraph D86 the amendment to Paragraph 130(f) of IAS 36 is amended (new text is underlined) and paragraph C4 is added.

**130 An entity shall disclose the following for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit:**

**…**

**(f) if recoverable amount is fair value less costs of disposal, the basis used to measure fair value less costs of disposal (such as whether fair value was measured by reference to a quoted price in an active market for an identical asset). <u>If fair value less costs of disposal is measured using a present value technique, an entity shall disclose the discount rate(s) used in the current measurement and previous measurement (if any). An entity is not required to provide the disclosures required by IFRS 13.</u>**

**…**

## Transitional provisions and effective date

C4 *Improvements to IFRSs* issued in [date] amended paragraph D86. An entity shall apply this amendment for annual periods beginning on or after 1 July 2013. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact. The amendment shall be applied prospectively as of the beginning of the annual period in which it is initially applied.

# Appendix C—Qualifying assessment criteria for Annual Improvements

For ease of reference, we reproduce below paragraph 65A of the *Due Process Handbook for the International Accounting Standards Board* as amended by the Trustees in February 2011:

> 65A In planning whether an issue should be addressed by amending IFRSs within the annual improvements project, the IASB assesses the issue against the following criteria. All criteria (a)–(d) must be met to qualify for inclusion in annual improvements.
>
> (a) The proposed amendment has one or both of the following characteristics:
>
> (i) clarifying—the proposed amendment would improve IFRSs by:
>
> - clarifying unclear wording in existing IFRSs, or
> - providing guidance where an absence of guidance is causing concern.
>
> A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle.
>
> (ii) correcting—the proposed amendment would improve IFRSs by:
>
> - resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirement should be applied, or
> - addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs.
>
> A correcting amendment does not propose a new principle or a change to an existing principle.
>
> (b) The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.
>
> (c) It is probable that the IASB will reach conclusion on the issue on a timely basis. Inability to reach a conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.
>
> (d) If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.