IASB/FASB Meeting
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Staff Paper

FASB Memorandum **201**

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Project **Leases**

Topic **Lessor Subsequent Measurement Issues**

Introduction

1. This paper discusses the following subsequent measurement issues for lessors:

   (a) Subsequent measurement, including impairment, of the right to receive lease payments,

   (b) Impairment of the guaranteed and unguaranteed portions of the residual asset,

   (c) Reassessment of variable lease payments based on an index or a rate, and

   (d) IASB only: Revaluation of the residual asset.

Summary of staff recommendations

2. The staff recommend that:

   (a) The right to receive lease payments should be subsequently measured using the effective interest method and should be assessed for impairment in accordance with IAS 39 *Financial Instruments: Classification and Measurement* and Topic 310 *Receivables* in the *FASB Accounting Standards Codification®*.

(b) The guaranteed and unguaranteed portions of the residual asset should be assessed for impairment in accordance with IAS 36 *Impairment of Assets* under IFRS. Specific impairment guidance for the residual asset, generally consistent with the impairment guidance in Topic 840 *Leases* and Topic 350 *Intangibles—Goodwill and Other*, should be included in the leases standard for US GAAP.

(c) Lessors should recognise changes in the measurement of lease payments that depend on an index or a rate through profit or loss.

(d) IASB only: Revaluation of the residual asset should be prohibited.

Background

3. At the July 2011 joint board meeting, the boards tentatively decided that a lessor should apply a 'receivable and residual' accounting approach. Using this model, a lessor would recognise a right to receive lease payments, initially measured at the present value of future lease payments, and a residual asset, initially measured as an allocated amount of the previous carrying amount of the underlying asset and subsequently measured by accreting over the lease term using the rate the lessor charges the lessee.

4. The boards also decided the following regarding profit recognition:

> If profit on the right-of-use asset transferred to the lessee is reasonably assured, the lessor would recognise that profit at the date of the commencement of the lease. The profit would be measured as the difference between (a) the carrying amount of the underlying asset and (b) the transaction price and the residual asset.
>
> If profit on the right-of-use asset transferred to the lessee is not reasonably assured, the lessor would recognise that profit over the lease term. In that case, the lessor would initially measure the residual asset as the difference between the carrying amount of the underlying asset and the right to receive lease payments. The lessor would subsequently accrete the residual asset, using a constant rate of return, to an amount equivalent to the underlying asset's carrying amount at the end of the lease term as if the underlying asset had been subject to depreciation.

5. The 'receivable and residual' approach is somewhat similar to the 'derecognition' approach proposed in the *Leases* exposure draft ('the ED').

The ED proposed that the residual asset is initially measured at an allocated amount of the carrying amount of the underlying asset. Regarding subsequent measurement in the derecognition approach, the ED proposed that:

(a) The right to receive lease payments be subsequently measured using the effective interest method and should be assessed for impairment in accordance with IAS 39 and Topic 310.

(b) The residual asset should not be accreted or revalued but should be assessed for impairment in accordance with IAS 36 and Topic 350 *Intangibles—Goodwill and Other* or Topic 360 *Property, Plant and Equipment*.

Residual Asset

6. Topic 840 and IAS 17 provide impairment guidance regarding the subsequent measurement of the residual asset in a capital lease. Topic 840 requires a lessor in a capital lease to initially measure the residual value at the estimated fair value of the leased asset at the end of the lease term. The guidance for impairment of the estimated residual value in Topic 840 follows:

> A lessor shall review the estimated residual value of a leased property at least annually. If the review results in a lower estimate than had been previously established, the lessor shall determine whether the decline in estimated residual value is other than temporary. If the decline in estimated residual value is judged to be other than temporary, the accounting for the transaction shall be revised using the changed estimate and the resulting reduction in the net investment shall be recognized by the lessor as a loss in the period in which the estimate is changed. An upward adjustment of the leased property's estimated residual value (including any guaranteed portion) shall not be made.

7. IFRS defines residual value as the estimated amount that an entity would currently obtain from disposal of an asset if the asset were already of the age and in the condition expected at the end of its useful life. IAS 17 provides the following guidance regarding subsequent measurement of the residual value:

> Estimated unguaranteed residual values used in computing the lessor’s gross investment in the lease are reviewed regularly. If there has been a reduction in the estimated unguaranteed residual value, the income allocation over the lease term is revised and any reduction in respect of amounts accrued is recognised immediately.

Lease payments that depend on an index or a rate

8. At the July 2011 joint board meeting, the boards also tentatively decided that a lessor should reassess the measurements of lease payments that depend on an index or a rate at the end of each reporting period. They also decided that a lessee should recognise changes in those lease payments in profit or loss to the extent that those changes relate to the current reporting period and as an adjustment to the right-of-use asset to the extent that those changes relate to future reporting periods. However, the boards did not decide how a lessor should reflect changes in the measurement of lease payments that depend on an index or a rate.

9. The ED proposed that a lessor using the derecognition approach recognise any change in the expected amount of the right to receive lease payments related to changes in the expected amount of variable lease payments in profit or loss.

Summary of feedback received

10. As stated above, the ‘receivable and residual’ approach is somewhat similar to the ‘derecognition’ approach proposed in the ED. Therefore, the staff have reviewed feedback received on the derecognition approach; the relevant feedback is summarised below.

11. Regarding subsequent measurement of the right to receive lease payments, most respondents agreed with the proposals in the ED. Very few respondents requested that the right to receive lease payments be subsequently measured at fair value.

12. Regarding lessor impairment testing, the majority of the comments received related to impairment testing under the performance obligation approach; there were relatively few comments relating to impairment testing under the derecognition approach. Those that commented, however, generally supported the proposals in the ED. Some US GAAP constituents recommended clarifying which impairment model (the impairment model for intangible assets or the impairment model for property, plant and equipment) should be used for assessing the residual asset for impairment rather than allowing a

choice between the two models. Some of those respondents recommended using Topic 360 *Property, Plant and Equipment* for the impairment assessment to ensure consistency between the residual asset, the underlying asset and other owned property, plant and equipment. A representative comment is as follows:

> Paragraph 59 of the ED indicates that a lessor shall apply either Topic 350 or Topic 360 at each reporting date to determine whether the residual asset is impaired. It is unclear whether the selection of guidance to follow for evaluating the residual asset for impairment is a choice to be made by the lessor. If the Board did not intend for this to be choice, [the organisation] believes Topic 360 provides the most relevant guidance because the residual asset represents the rights retained by the lessor in the leased property, plant and equipment. [CL # 640]

13. A few other respondents recommended that there should be specific impairment guidance within the leases standard for the residual asset, rather than referring to existing guidance.

14. Relatively little feedback was received concerning a lessor's reassessment of the right to receive lease payments as it relates to changes in variable lease payments that depend on an index or a rate. Agenda paper 5E/FASB Memo 191, discussed in July 2011, contains all feedback received regarding the reassessment of variable lease payments that depend on an index or a rate.

15. Regarding revaluation of the residual asset (IASB-only), many respondents did request that the residual asset be revalued. However, many of these respondents only meant revaluation in the context of accretion; relatively few respondents requested lessors be permitted to remeasure the residual asset to fair value. Those that requested such revaluation did so for reasons of consistency between the residual asset and other owned property, plant and equipment that are revalued.

Subsequent measurement of the right to receive lease payments

16. The staff recommend that the boards confirm their proposals in the ED regarding subsequent measurement, including impairment, of the right to receive lease payments. That is, the staff recommend that the right to receive lease payments be subsequently measured using the effective interest method

and should be assessed for impairment in accordance with IAS 39 and Topic 310.

17. The right to receive lease payments meets the definition of a financial asset under IAS 39 and a loan under Topic 310. Subsequently measuring the receivable using the effective interest method and assessing it for impairment in accordance with IAS 39 and Topic 310 would result in consistency with other financial instruments, especially other receivables. The majority of respondents commenting on the ED's proposals regarding subsequent measurement of the right to receive lease payments supported this approach, and the staff continue to think this approach is appropriate.

18. The staff would like to note that, although IAS 39 and Topic 310 are not entirely converged in their impairment guidance, they contain the same basic impairment model for financial assets. This impairment model is based on an incurred loss notion of impairment, requires a direct estimate of future cash flows and reflects the credit risk associated with those cash flows.

19. The staff considered including impairment guidance for the right to receive lease payments within the leases standard. The staff considered this alternative because impairment of financial assets is currently being deliberated by the boards and the related guidance is likely to change. Additionally, this alternative would result in a converged answer. However, the staff rejected this approach because it would likely result in inconsistency between the right to receive lease payments and other financial instruments when the final impairment guidance is published. Moreover, before the final impairment guidance is published, that guidance will be reviewed to ensure it can be applied to the right to receive lease payments. If the guidance is not applicable, impairment guidance can be included in the final leases standard as a consequential amendment of the impairment project.

Question 1

Do the boards agree that a lessor should subsequently measure the right to receive lease payments using the effective interest method and should apply existing impairment guidance for financial assets to assess the impairment of the right to receive lease payments?

Impairment of the residual asset

20. The staff think the boards need to separately consider how to assess the unguaranteed and guaranteed portions of the residual asset for impairment. This is because a guaranteed residual asset could be measured in contemplation with the residual value guarantee. That measurement would be subject to the credit standing of the guarantor, including changes in that credit standing.

Impairment of the unguaranteed residual asset

21. The staff think the boards have three alternatives to consider when developing an impairment model for the unguaranteed portion of the residual asset:

    (a) Approach A: IASB and FASB—refer to existing non-financial asset impairment guidance

    (b) Approach B: IASB—refer to IAS 36, FASB—include unique impairment guidance for the residual asset in the leases standard

    (c) Approach C: IASB and FASB—include unique impairment guidance for the residual asset in the leases standard.

22. The staff rejected using a financial instruments impairment model for the unguaranteed residual asset because that guidance is written in the context of impairment occurring as a result of a deterioration in credit standing of the counterparty. The unguaranteed residual asset will not be impaired because of credit risk; instead, if the unguaranteed residual asset is impaired, it will be so because of a deterioration in the value of the underlying asset at the end of the lease term. Therefore, it is unlikely that impairment of the residual asset would ever be recognised following the impairment indicators in existing financial instrument impairment guidance.

23. Appendix A contains a summary of existing impairment guidance in IFRSs (IAS 36 and IAS 39) and US GAAP (Topic 310, Topic 350 and Topic 360).

Approach A: Refer to existing non-financial asset impairment guidance

24. Under this approach, an entity would refer to existing non-financial asset impairment guidance for impairment of the unguaranteed residual asset. This

approach is generally consistent with the proposal in the ED for impairment of the residual asset (IFRSs—follow IAS 36, US GAAP—follow Topic 350 or Topic 360).

25. For IFRSs, the staff think it is clear that it would be appropriate to refer to the guidance in IAS 36 under this approach. For US GAAP, the staff think it would be appropriate to refer to the impairment model for intangible assets not subject to amortisation in Topic 350. The staff think this impairment model is most appropriate for the residual asset because such an impairment model was designed for assets that are not amortised or otherwise reduced in value. The carrying amount of the residual asset, in most cases, will actually increase over the lease term because of accretion, so the impairment test designed for non-amortised intangible assets in Topic 350 is most appropriate.

26. This approach would have the advantage of consistency between impairment of the residual asset and other owned non-financial assets (under IFRSs) or other intangible assets not subject to amortisation (under US GAAP). Moreover, the boards have tentatively decided to refer to existing non-financial asset impairment guidance for a lessee's right-of-use asset.

27. Another advantage of referring to existing non-financial asset impairment guidance is that this guidance is written in the context of impairment occurring as a result of a deterioration in the value of the underlying asset. This would be more appropriate for the unguaranteed residual asset because this asset, if it is impaired, will be so as a result of such a deterioration in the value of the underlying asset.

28. However, a disadvantage of this approach is that it would result in a non-converged answer because the impairment models for non-financial assets in IFRSs and US GAAP are different. As a result, impairment could be recognised at different times, and for different amounts, under IFRSs and US GAAP.

29. Moreover, under US GAAP, Topic 350 requires intangible assets not subject to amortisation to be tested for impairment annually. This means that lessors would have to calculate the fair value of the residual asset each year. This

could be time-consuming and costly for lessors and the costs may not outweigh the benefits in situations in which the residual asset is unlikely to be impaired.

30. Additionally, the staff note that the FASB is about to issue new guidance for goodwill impairment testing that simplifies the impairment assessment by introducing an initial qualitative assessment of impairment rather than an annual quantitative assessment. In the comment letters received on the goodwill project many questioned why the FASB was not also changing the guidance for indefinite lived intangible assets (non-amortisable assets). The FASB is currently assessing whether to also modify the requirements for those intangible assets.

Approach B: IASB—refer to IAS 36, FASB—create unique impairment guidance

31. Another approach the staff considered was for the IFRS leases standard to refer to IAS 36 for impairment of the unguaranteed residual asset and the US GAAP leases standard to have a unique impairment model for the unguaranteed residual asset. For IFRSs, this approach would be the same as Approach A (ie referring to IAS 36 for impairment of the residual asset); however, for US GAAP this approach would be different from Approach A because it would introduce unique impairment guidance for the residual asset into the leases standard.

32. If the boards chose to follow this approach, the staff would recommend the following for impairment guidance for US GAAP, which is almost directly taken from Topic 350 (with the exception of removing the annual impairment assessment):

> The residual asset shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Paragraph 360-10-35-21 includes examples of such events or changes in circumstances. The impairment test shall consist of a comparison of the fair value of a residual asset with its carrying amount. If the carrying amount of a residual asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess. After an impairment loss is recognized, the adjusted carrying amount of the residual asset shall be its new accounting basis. Subsequent reversal of a previously recognized impairment loss is prohibited.

33. This approach has the advantage, for IFRSs, of referring to existing non-financial asset impairment guidance, which would be appropriate and easy to apply to the residual asset and would result in consistency between the residual asset and other owned assets. For US GAAP, this approach has the advantage of avoiding the annual impairment test required by existing intangible impairment guidance in Topic 350 while at the same time maintaining consistency with the rest of Topic 350's requirements and providing an impairment test that would be appropriate for the residual asset. Moreover, Topic 840 (the US GAAP leases guidance) already has unique impairment guidance for the residual asset. The staff think the proposed guidance would generally be consistent with the guidance in Topic 840 while being more closely aligned with the impairment guidance in Topic 350.

34. However, this approach would not result in a converged answer between IFRS and US GAAP. Moreover, this approach would result in complexity and a lack of consistency within US GAAP by the creation of a unique impairment model for residual assets.

Approach C: unique impairment guidance for the residual asset in both US GAAP and IFRSs

35. Another approach the staff considered would be to create unique impairment guidance in the leases standard for the unguaranteed residual asset in both US GAAP and IFRSs. The staff envision this impairment model as being very similar to the unique US GAAP impairment model discussed in paragraph 32. However, the boards would need to decide if subsequent reversals of impairment losses would be allowed; such reversals are allowed under IFRSs but prohibited under US GAAP.

36. The most significant advantage of this approach is that it would result in a converged answer for impairment of the unguaranteed residual asset. For US GAAP, the approach would also have the advantages discussed in paragraph 33.

37. However, the approach also has disadvantages. For IFRSs, such an impairment model would result in inconsistency between the residual asset and other owned non-financial assets. This impairment model would not take into

account an entity-specific notion of a recoverable amount the way that IAS 36 does through its incorporation of value in use. The other guidance in IAS 36 regarding impairment (eg what cash flows to use to determine recoverable amount) would not all be able to be incorporated into the leases standard, and this guidance could be useful for assessing impairment of the residual asset. Moreover, IAS 36 would be easy to apply and appropriate for the residual asset; convergence would be the only reason to adopt a unique impairment model for the residual asset.

38. Similar to Approach B, this approach could also result in complexity and a lack of consistency within US GAAP by the creation of a unique impairment model.

Staff recommendation

39. The staff recommend Approach B. For IFRSs, the staff think that the impairment model in IAS 36 is easy to apply to the unguaranteed residual asset and will result in an appropriate impairment answer. Moreover, referring to IAS 36 will result in consistency in the treatment of the residual asset and other owned non-financial assets for purposes of impairment.

40. Under US GAAP, the staff did not identify an existing impairment model outside the leases guidance in Topic 840 that was so well-suited to the unguaranteed residual asset. The staff think that the requirement for annual impairment assessments in Topic 350 would introduce too much cost and complexity into the leases standard. Therefore, the staff think that creating a unique impairment model for the unguaranteed residual asset is warranted and consistent with current lease guidance.

41. The staff acknowledge that Approach B will result in a non-converged answer but think that the disadvantages involved with arriving at a converged answer (described in paragraphs 37 and 38) outweigh the advantages.

Impairment of the guaranteed residual asset

42. The staff think the boards also need to consider impairment of the guaranteed portion of the residual asset. Whether a lessor should recognise a residual

value guarantee as a separate asset or include it as part of the residual asset will be discussed in a separate paper. Regardless of whether a lessor recognises a residual value guarantee separately, that guaranteed portion of the residual asset would need to be assessed for impairment.

43. The guaranteed portion of the residual asset will be impaired for the same reasons as the unguaranteed portion but the measurement could be different given the existence of the residual value guarantee. The measurement of the residual asset would then be affected by the credit standing of the guarantor, including changes in that credit standing. The guaranteed residual asset will therefore be impaired because both the underlying asset value and the guarantor's credit standing have decreased (as opposed to the unguaranteed portion, impaired solely because of a decrease in the value of the underlying asset, or the receivable, impaired solely because of a decrease in the credit standing of the guarantor).

44. The boards could consider creating a unique impairment model for the guaranteed portion of the residual asset. However, the staff recommend simply carrying forward whatever decision is made for the unguaranteed portion of the residual asset. The set of cash flows that the carrying value is compared against will incorporate decreases in both the value of the underlying asset and the credit standing of the guarantor, whether that amount is fair value, value-in-use, or another discounted or undiscounted amount of future cash flows.

Question 2
Do the boards agree that the IFRS leases standard should refer to IAS 36 and the US GAAP leases standard should include specific impairment guidance for the residual asset?

Variable lease payments and impairment

45. The staff also considered how variable lease payments would affect the impairment assessment of the residual asset. A concern was raised that since most variable lease payments were not recognised in the lessor's right to receive lease payments, the residual asset, measured as an allocation of the underlying asset, would be artificially overvalued and would need to be

impaired if there were significant variable lease payments present in a lease contract.

46. However, the staff does not believe that the residual asset should be impaired in this case. That is because the residual asset represents the rights to the underlying asset retained by the lessor (the definition given in the ED); that is, the residual asset is all rights remaining in the underlying asset, including rights to variable lease payments not recognised as part of the right to receive lease payments. Both the cash flows from the variable lease payments and the cash flows relating to the lessor's right to the underlying asset at the end of the lease term should be included in the impairment assessment because they are included in initial measurement of the residual asset.

Reassessment of variable lease payments that depend on an index or a rate

47. The boards also need to decide how a lessor should account for the reassessment of variable lease payments that depend on an index or a rate. The boards discussed this issue at the July 2011 joint board meeting and raised the question of how lessors could account for such a reassessment if the profit on the right-of-use asset transferred to the lessee is not reasonably assured.

48. The staff think it is clear that, if the profit on the right-of-use asset is reasonably assured, the lessor should recognise any changes related to the reassessment of variable lease payments that depend on an index or a rate in net income because the lessor would not have deferred any other profit related to the lease transaction; there would be no reason to defer profit related to variable lease payments that depend on an index or a rate.

49. However, the staff think that it is more difficult to determine the appropriate way to reflect changes to the estimates of variable lease payments that depend on an index or a rate when profit is not reasonably assured. In this case, the boards have two alternatives to consider:

    (a) Approach A: Recognise changes related to the reassessment of variable lease payments that depend on an index or a rate as an adjustment to the lessor's residual asset; or

(b) Approach B: Recognise these changes in profit or loss.

Approach A: Recognise changes as an adjustment to the lessor's residual asset

50. Under this approach, any changes in a lessor's reassessment of variable lease payments that depend on an index or a rate that do not relate to the current period lease payment would be treated as an adjustment both to the lessor's receivable and residual asset.

51. This approach would be consistent with the boards' decision to recognise profit related to the right-of-use asset over the lease term when that profit is not reasonably assured. Under this approach, all types of income would be deferred and recognised over the lease term.

52. However, the staff does not think this consistency in profit recognition is necessarily appropriate because the profit or loss related to the reassessment of variable lease payments related to an index or a rate is, in fact, 'reasonably assured'; the changes to the index or rate have occurred. Moreover, these changes do not necessarily change the value of the residual asset; they only change the value of the lessor's receivable. Additionally, reflecting these changes in the residual asset would introduce additional complexity to the accretion of the residual by requiring a lessor to adjust the accretion rate every time such a change was capitalised. This approach would also introduce additional complexity by requiring a lessor to allocate the changes in variable lease payments that depend on an index or a rate between current and future periods.

Approach B: Recognise changes in profit or loss

53. Under this approach, any changes related to the reassessment of variable lease payments that depend on an index or a rate would be recognised directly in profit or loss.

54. The advantages of this approach are explained in paragraph 52. This approach would reflect that changes in variable lease payments that depend on an index or rate do not impact the value of the residual asset. Moreover, this approach would be very simple to apply. The staff would also like to note that this

approach is consistent with what was proposed in the ED for lessor reassessment of variable lease payments under the derecognition approach, and no significant feedback was received objecting to the proposal.

Staff recommendation

55. For the reasons explained in paragraph 52, the staff recommend that any changes relating to the reassessment of variable lease payments that depend on an index or a rate be recognised immediately in profit or loss by a lessor. Given the different nature of the profit or loss relating to these changes and the profit or loss relating to the transfer of a right-of-use asset, the staff do not think that consistency in profit recognition pattern is necessary. The staff think that recognising the changes relating to the reassessment of variable lease payments that depend on an index or a rate in profit or loss is appropriate given the nature of the change and the fact that change only affects the value of the lessor's receivable.

Question 3
Do the boards agree that a lessor should recognise any changes relating to the reassessment of variable lease payments that depend on an index or a rate in profit or loss, regardless of whether profit is reasonably assured?

Revaluation of the residual asset (IASB-only)

56. The last issue the IASB needs to decide on is whether revaluation should be allowed for a lessor's residual asset. As discussed in paragraph 5, the ED did not allow accretion or revaluation of a lessor's residual asset under the derecognition approach.

57. Many respondents did request that accretion be allowed for the residual asset. However, significantly fewer respondents requested that *revaluation* be allowed for the residual asset. Those respondents who supported revaluation, however, stated that the residual asset should be accounted for consistently with owned assets and other property, plant and equipment.

58. The staff acknowledge that the above argument represents one of the advantages of allowing revaluation for the residual asset. Moreover, measuring the residual asset at fair value could result in more useful, relevant information in some cases.

59. However, the staff does not think that revaluation is appropriate for the residual asset. First of all, the boards have chosen to initially measure the residual asset as an allocation of the underlying asset and then accrete that value over the lease term using the interest rate implicit in the lease. Revaluation to fair value would be inconsistent with the boards' decision regarding initial measurement and the decision against fair value measurement throughout the leases standard. Moreover, the staff do not think that consistency with owned assets and other PPE is necessarily appropriate as the residual asset is initially measured differently from these assets and is somewhat different in nature to them. A lessor does not have current access to the residual asset, as it does for other owned assets.

60. For these reasons, the staff does not recommend that revaluation of the residual asset be allowed under IFRSs.

Question 4
Does the IASB agree that revaluation of the residual asset should be prohibited?

Appendix A: Overview of existing impairment guidance

IFRSs

IAS 36 Impairment of Assets

A1. Assess when there is an indicator of impairment.

A2. Test at individual asset level (if recoverable amount can be determined) or cash-generating unit (CGU) level. CGU is the smallest group of assets that generates cash inflows from continuing use that are independent of cash inflows of other assets or groups. To qualify as a CGU:

(a) the individual asset's value in use cannot be estimated to be close to its fair value less costs to sell; and

(b) the individual asset does not generate cash inflows that are largely independent of those from other assets.

A3. Impairment loss = asset's (CGU) carrying amount exceeds recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use.

A4. Value in use is based on the net present value of future cash flows. Estimates of future cash flows used in value in use calculation are specific to the entity. Discount rate used is based on market-related rate that reflects the current market assessment of risk specific to the asset. It is a pre-tax rate.

A5. Allocate impairment loss for CGU on a pro-rata basis on the basis of the carrying amount of each asset in the unit. However, the carrying amount of each asset cannot be reduced below its fair value less costs to sell (if determinable), value in use (if determinable). The remaining impairment loss shall be allocated pro rata to other assets of the unit.

A6. Impairment loss on revalued asset is charged directly to the revaluation reserve in OCI to the extent that it reverses a previous revaluation surplus. Excess is recognised in profit or loss.

A7. Reversals of impairment are recognised.

IAS 39 Financial Instruments: Recognition and Measurement

A8. Assess for impairment at the end of each reporting period when there is any objective evidence (based on one or more events that occurred after initial recognition) that a financial asset or a group of financial assets is impaired.

A9. Impairment loss is recognised when incurred rather than as expected.

A10. Impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie interest rate computed at initial recognition).

US GAAP

Topic 350 Intangibles—Goodwill and Other

A11. Intangible assets subject to amortisation follow the impairment requirements in Topic 360.

A12. Intangible assets not subject to amortisation are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment indicators from 360 can be used.

A13. Impairment is measured as the difference of the asset's carrying amount and its fair value.

A14. Subsequent reversals of impairment losses are prohibited.

Topic 360 Property, Plant and Equipment (subsection 360-10-35 Impairment or Disposal of Long-Lived Assets)

A15. Tested for recoverability only when facts indicate that the carrying amount may not be recoverable.

A16. Normally property, plant and equipment is tested at an individual asset level. Otherwise, assets are tested on a group level. An asset group is the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

A17. Impairment loss of an asset group shall reduce only the carrying amounts of a long-lived asset or assets of the group. The loss shall be allocated to the long-lived assets of the group on a pro-rata basis using the carrying amount basis. However, the loss allocated to an individual long-lived asst shall not reduce the carrying amount below the fair value of the individual asset. Determining fair value should be without undue cost and effort.

A18. Impairment loss = asset's (or group of asset's) carrying amount is less than undiscounted cash flows of asset. Impairment loss is calculated based on the fair value of the asset.

A19. Estimates of future cash flows to assess recoverability of assets are specific to the entity. Cash flows are gross (not undiscounted).

A20. Impairment loss for asset group is allocated pro rata to assets in the asset group (exclude goodwill, corporate assets and indefinite-loved intangible assets).

A21. Reversals of impairment are prohibited.

ASC Subsection 450-20-25-2 or Topic 310 Receivables 310-10-35

A22. Recognition of a loss occurs when both of the following conditions are met:

(a) Information is available before the financial statements are issued or are available to be issued indicates that it is probable that an asset has been impaired at the date of the financial statements.

(b) The amount of the loss can be reasonably estimated.

A23. Losses shall not be recognised before it is probable that they have been incurred, even though it may be probable based on past experience that losses will be incurred in the future. It is inappropriate to consider possible or expected future trends that may lead to additional losses. Recognition of losses shall not be deferred to periods after the period in which the losses have been incurred.

A24. Some impaired loans have risk characteristics that are unique to an individual borrower, and the creditor measure the loss on a loan-by-loan basis.

A25. When a loan is impaired, a creditor shall measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is a collateral-dependent loan.

A26. The valuation allowance can be adjusted if there is a significant change (increase or decrease) in the amount or timing of an impaired loan’s expected future cash flows or if actual cash flows are significantly different from the projections.