STAFF PAPER

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IASB Meeting

Project	IFRS 13 *Fair Value Measurement*		
Paper topic	IAS 36 *Impairment of Assets* narrow scope amendment—Recoverable amount disclosures		
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Purpose of the paper

1. As a consequence of issuing IFRS 13 *Fair Value Measurement* in May 2011 the IASB modified some of the disclosure requirements in IAS 36 *Impairment of Assets* with regard to the measurement of the recoverable amount of impaired assets. The amendments resulted from the IASB's decision in December 2010[1] to require additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal (formerly referred to in IAS 36 as "fair value less costs to sell"). The IASB took this decision to make the disclosure requirements in IAS 36 consistent with the wording and some of the disclosure requirements in IFRS 13 and with the disclosures about impaired assets in US Generally Accepted Accounting Principles (GAAP). In addition, the IASB

[1] Agenda Paper 9 for that meeting describes the issue. That paper can be found at: http://www.ifrs.org/Current-Projects/IASB-Projects/Fair-Value-Measurement/Summaries/Documents/FVM1210b09obs.pdf.

wanted to ensure that the amount of disclosure that was required for fair value less costs of disposal and value in use would not be unbalanced.

2. However, we have recently been made aware that one of the amendments made to IAS 36 makes the disclosure requirements broader than the IASB intended. Instead of requiring the disclosure of the recoverable amount of impaired assets, including goodwill, as intended, the amendment requires the disclosure of the recoverable amount of any 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.

3. This paper:

   (a) provides a description of the issue that needs to be resolved by the IASB;

   (b) proposes to address the problem through a narrow-scope amendment to IAS 36; and

   (c) asks the IASB whether it agrees with the staff's recommendation.

4. This paper proposes making a narrow-scope amendment outside the Annual Improvements project. Because IFRS 13 will be effective from 1 January 2013, we are bringing this issue directly to the IASB for its consideration so that the amendment could be made effective as soon as possible, preferably before many entities' half-year results are published.

Description of the issue

5. IFRS 13 provides guidance for measuring the fair value of assets and cash-generating units for impairment testing purposes in IAS 36. However, the IASB decided not to require the disclosures in IFRS 13 when assets and cash-

generating units are tested for impairment in accordance with IAS 36. Instead, the IASB decided to amend some of the disclosure requirements about **impaired assets** in IAS 36 to improve the comparability between entities applying IFRSs and entities applying US GAAP (for which impaired assets are measured at fair value) and to align the wording about fair value in IAS 36 with that used in IFRS 13.

6. The following paragraphs of the Basis for Conclusions of IFRS 13 explain the rationale for amending the disclosures requirements in IAS 36 relating to impaired assets [**emphasis added**] (these paragraphs are similar to paragraphs BC209B–BC209D in the Basis for Conclusions of IAS 36):

Assets with a recoverable amount that is fair value less costs of disposal

BC218 Because IAS 36 requires disclosures that are specific to impaired assets, the exposure draft did not propose requiring the disclosures about fair value measurements for assets with a recoverable amount that is fair value less costs of disposal in IAS 36. Some respondents (mainly users of financial statements) noted that the disclosures about impaired assets are different in IFRSs and in US GAAP (which requires assets to be tested for impairment by comparing their carrying amounts with their fair values) and asked the IASB to minimise those differences to ensure that users have access to similar information for their analyses of impaired assets.

BC219 The IASB noted that the disclosure requirements in IAS 36 were developed specifically to ensure consistency in the disclosure of information about impaired assets so that the same type of information is provided whether the recoverable amount was determined on the basis of value in use or fair value less costs of disposal. Consequently, the IASB did not think it would be appropriate to require an entity to provide information when the recoverable amount is determined on the basis of fair value less costs of disposal (ie as required by IFRS 13) that is significantly different from what the entity would provide when the recoverable amount is determined on the basis of value in use.

BC220 Although IFRSs and US GAAP have different impairment models, the IASB concluded that requiring the following information (in addition to what IAS 36 currently requires) **about impaired assets measured at fair value less costs of disposal** would improve comparability between entities applying IFRSs and those applying US GAAP as well as increase the convergence of IFRSs and US GAAP:

(a) the fair value less costs of disposal;

(b) the level of the fair value hierarchy within which the fair value less costs of disposal is categorised in its entirety (Level 1, 2 or 3);

(c) if applicable, changes to valuation techniques and reasons for those changes; and

(d) quantitative information about significant inputs used when measuring fair value less costs of disposal (along with a conforming amendment to the disclosures about value in use).

BC221 In addition, those disclosures are consistent with the disclosures required for non-recurring fair value measurements in IFRS 13 and in US GAAP.

7. However, the amendment was made to paragraph 134 of IAS 36, which requires an entity to disclose information 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:

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:

…

(c) the recoverable amount of the unit (or group of units) and the basis on which the unit's (group of units') recoverable amount has been determined (ie value in use or fair value less costs ~~to sell~~ of disposal).

…

8. Consequently, from 1 January 2013, entities will be required to disclose the recoverable amount of such cash-generating unit (group of units). This amendment is not consistent with the IASB's intention, as set out in the Basis for Conclusions of IFRS 13 and IAS 36.

9. IFRS 13 also amended paragraph 134 of IAS 36 to require disclosure of the level of the fair value hierarchy in which the measurement is categorised and whether (and if so why) there has been a change in the valuation technique used

to measure fair value less costs of disposal for such cash-generating units. The staff do not think it is necessary to change those disclosure requirements because they think that those requirements are consistent with the IASB's intention of aligning the disclosures about fair value less costs of disposal in IAS 36 with the fair value disclosures in IFRS 13. However, the staff think that such information should also be required for impaired assets, including goodwill (ie in paragraph 130).

Staff recommendations

10. To meet the objective described in the Basis for Conclusions of IFRS 13 and IAS 36, the amendment to require disclosure of the recoverable amount should have been made to paragraph 130 of IAS 36, which requires disclosures for each material impairment loss recognised or reversed during the period for an individual asset or cash-generating unit.
11. Consequently, the staff recommend amending paragraph 130 and paragraph 134 of IAS 36 as follows:
    - (a) to add to paragraph 130(e) a requirement to disclose the recoverable amount of assets, including goodwill, for which there was a material impairment loss recognised or reversed during the period (ie moving the requirement from paragraph 134(c)).
    - (b) to accompany that requirement, add a requirement to disclose the following to paragraph 130(f):
        - (i) a description of the valuation technique that is used to measure fair value less costs of disposal of the impaired asset and, if there has been a change in the valuation technique, the reason for making it (consistently with the requirements in paragraph 134(e) and 134(e)(iiB));

(ii) the level in the fair value hierarchy in which the fair value measurement is categorised in its entirety (consistently with the requirement in paragraph 134(e)(iiA)); and

(iii) for the fair value measurements that are categorised within Level 2 and Level 3, the key assumptions used in the measurement (consistently with the requirement in paragraph 134(e)(i)).[2]

(c) to remove from paragraph 134(c) the requirement to disclose the recoverable amount of any cash-generating units with a significant carrying amount of goodwill or intangible assets with indefinite useful lives.

12. Appendix A to this paper contains the proposed wording for the amendments to paragraphs 130 and 134 of IAS 36. Appendix B contains the current wording of paragraph 134 of IAS 36, after the amendment made by IFRS 13. Appendix C contains a comparison of the disclosure requirements in paragraphs 130 and 134 of IAS 36 after the proposed amendments.

13. The staff recommend that these amendments should be effective from 1 January 2014 and that early application should be permitted.

14. The staff recommend that these amendments should be applied retrospectively, but not earlier than when an entity first applies IFRS 13. That is because:

(a) for paragraph 130, the IASB's original intention when deciding to require additional information about the fair value less costs of disposal of impaired assets was that the entities would disclose the

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[2] The staff suggest using the term "assumptions" in this disclosure even though IFRS 13 would use the term "inputs". Doing so would retain consistency with the wording used for other disclosures in IAS 36 and would avoid questions about whether the different wording would change the disclosure requirements in IAS 36. The staff think that although IFRS 13 uses different words to describe assumptions (inputs) used in a measurement, there is unlikely to be confusion because IFRS 13 defines "inputs" as "the assumptions that market participants would use when pricing the asset or liability…".

information recommended in paragraph 11(b) above when they apply IFRS 13
(ie from 1 January 2013); and

(b) for paragraph 134, the IASB's original intention was not to require disclosure of the recoverable amount of cash-generating units with a significant carrying amount of goodwill or intangible assets with indefinite useful lives. Therefore, entities should not be required to disclose that recoverable amount in their interim or annual reports.

15. The staff recommend a 60 day comment period for the following reasons:

(a) the matter is urgent, as IFRS 13 will become effective from 1 January 2013;

(b) the scope of the amendment is narrow; and

(c) it is likely that the amendment will be broadly supported.

16. If the IASB publishes the proposal in early January with a 60 day comment period, the amendment could be brought to the IASB meeting in April and issued in May 2013, in time for many entities to apply it before their half year results are published.

Questions for the IASB

1. Do you agree with the staff's recommendation in paragraph 11 to amend paragraphs 130 and 134 of IAS 36?
2. Do you agree with the recommendation in paragraph 13 that these amendments should be effective from 1 January 2014 and that early application should be permitted?
3. Do you agree with the recommendation in paragraph 14 that these amendments should be applied retrospectively, but not earlier than when an entity first applies IFRS 13?
4. Do you agree with the staff's recommendation in paragraph 15 to provide a 60 day comment period?
5. Do any IASB members plan to dissent to the proposed amendments?

Appendix A—Proposed amendment to IAS 36 *Impairment of Assets*

Paragraphs 130 and 134 are amended and paragraph 140J is added. New text is underlined and deleted text is struck through.

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:

…

(e) the recoverable amount of the impaired asset and whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs of disposal or its value in use.

(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). A~~an entity is not required to provide the disclosures required by IFRS 13~~.~~, but it shall provide:

(i) a description of the valuation technique used to measure fair value less costs of disposal and, if there has been a change in valuation technique, the change and the reason(s) for making it;

(ii) the level in the fair value hierarchy in which the fair value measurement is categorised in its entirety (without giving regard to the observability of 'costs of disposal'); and

(iii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management based its determination of fair value less costs of disposal. Key assumptions are those to which the asset's (cash-generating unit's) recoverable amount is most sensitive.

…

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 asset 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:

…

(c) ~~the recoverable amount of the unit (or group of units) and~~ the basis on which the unit's (group of units') recoverable amount has been determined (ie value in use or fair value less costs of disposal).

…

Transitional provisions and effective date

…

140J In [date] 2013 paragraphs 130 and 134 were amended. An entity shall apply those amendments retrospectively from 1 January 2014, but not earlier than when it first applies IFRS 13. Early application is permitted.

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

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

BC1 As a consequence of issuing IFRS 13 *Fair Value Measurement*, the IASB modified some of the disclosure requirements in IAS 36 with regard to the measurement of the recoverable amount of impaired assets. Those amendments resulted from the IASB's decision to require additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount was based on fair value less costs of disposal. The IASB wanted to provide information about how such fair values were measured, but also wanted to retain a balance between the disclosures about fair value less costs of disposal and the disclosures about value in use.

BC2 After issuing IFRS 13, the IASB was made aware that one of the amendments made to IAS 36 by IFRS 13 resulted in the disclosure requirements being broader than the IASB had intended. That amendment required the disclosure of the recoverable amount of any cash-generating units with a significant carrying amount of goodwill or intangible assets with indefinite useful lives. However, the IASB's intention was only to require the disclosure of the recoverable amount of assets, including goodwill, for which there was a material impairment loss recognised or reversed during the period.

BC3 Consequently, the IASB proposes to amend paragraphs 130 and 134 to satisfy the IASB's intention of the requirement to disclose the recoverable amount of impaired assets, including goodwill. The IASB also proposes to amend paragraph 130 to require information about the fair value measurement when the recoverable amount is based on fair value less costs of disposal, consistently with the disclosure requirements for impaired assets in US GAAP. The IASB considered whether there should be consistency between the wording of the disclosure requirements in IAS 36 (which uses the term "assumptions") with the measurement requirements in IFRS 13 (which uses the term "inputs"). The IASB concluded that it is unlikely that those terms could have different meanings because IFRS 13 defines "inputs" as "the **assumptions** that market participants would use when pricing the asset or liability…" [emphasis added]. In addition, the IASB wanted to make it clear that the proposed amendment does not change the meaning of the information that is required to be disclosed in accordance with IAS 36, which uses the term "assumptions". Furthermore, the IASB proposes requiring an entity to apply those amendments retrospectively, but not earlier than when the entity first applies IFRS 13.

Appendix B – Current wording of paragraph 134 of IAS 36 (including amendments made by IFRS 13 but before the amendments proposed in this agenda paper)

Estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives

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:

(a) the carrying amount of goodwill allocated to the unit (group of units).

(b) the carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units).

(c) the recoverable amount of the unit (or group of units) and the basis on which the unit's (group of units') recoverable amount has been determined (ie value in use or fair value less costs of disposal).

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

(i) 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) 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 of disposal, the valuation technique(s) used to measure fair value less costs of disposal. An entity is not required to provide the disclosures required by IFRS 13. If fair value less costs of disposal is not measured using a quoted price for an identical unit (group of units), an entity shall disclose the following information:

(i) each key assumption on which management has based its determination of fair value less costs of disposal. 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 (or values) assigned to each key assumption, whether those values 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.

(iiA) the level of the fair value hierarchy (see IFRS 13) within which the fair value measurement is categorised in its entirety (without giving regard to the observability of 'costs of disposal').

(iiB) if there has been a change in valuation technique, the change and the reason(s) for making it.

If fair value less costs of disposal is measured using discounted cash flow projections, an entity shall disclose the following information:

(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.

(f) if a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units')recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount:

(i) the amount by which the unit's (group of units') recoverable amount exceeds its carrying amount.

(ii) the value assigned to the key assumption.

(iii) the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.

Appendix C – Comparison of paragraphs 130 and 134 of IAS 36 (after proposed amendments)

New text is underlined and deleted text is struck through.

Paragraph 130	**Paragraph 134**
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:	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 asset 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:
(e) the recoverable amount of the impaired asset and whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs of disposal or its value in use.	(c) ~~the recoverable amount of the unit (or group of units) and~~ the basis on which the unit's (group of units') recoverable amount has been determined (ie value in use or fair value less costs of disposal).
(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).~~ Aan entity is not required to provide the disclosures required by IFRS 13~~.~~,but it shall provide:	(e) if the unit's (group of units') recoverable amount is based on fair value less costs of disposal,… An entity is not required to provide the disclosures required by IFRS 13.
(f)(i) a description of the valuation technique used to measure fair value less costs of disposal and, if there has been a change in valuation technique, the change and the reason(s) for making it.	(e) the valuation technique(s) used to measure fair value less costs of disposal (e)(iiB) if there has been a change in valuation technique, the change and the reason(s) for making it.
(f)(ii) the level in the fair value hierarchy in which the fair value measurement is categorised in its entirety (without giving regard to the observability of 'costs of disposal').	(e)(iiA) the level of the fair value hierarchy (see IFRS 13) within the fair value measurement is categorised in its entirety (without giving regard to the observability of 'costs of disposal').

Paragraph 130	Paragraph 134
(f)(iii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management based its determination of fair value less costs of disposal. Key assumptions are those to which the asset's (cash-generating unit's) recoverable amount is most sensitive.	(e)(i) each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.