STAFF PAPER

December 2012

IASB Meeting

Project	**IFRS 13 *Fair Value Measurement***
Paper topic	IAS 36 *Impairment of Assets* narrow-scope amendment–Recoverable amount disclosures—Annual Improvements 2010–2012

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Introduction

1. Agenda Paper 11 proposes amendments to the disclosure requirements in IAS 36 *Impairment of Assets*.

2. The staff is aware that one of the amendments proposed in Agenda Paper 11 overlaps with a proposal to amend paragraph 130 of IAS 36 in the Exposure Draft (ED) *Annual Improvements to IFRSs 2010-2012 Cycle* (ED/2012/1), which was published in May 2012.

3. Since posting Agenda Paper 11, the staff think that it would be more efficient to consider those matters at the same time, because the amendment in the ED is wholly subsumed by the proposal in the Agenda Paper 11.

4. The amendment proposed in Agenda Paper 11 and the proposal in the ED overlap insofar as both proposals address disclosing assumptions used in present value techniques for material impairment losses that have been recognised or reversed during the period when recoverable amount is based on fair value less costs of disposal:

   (a) Agenda Paper 11 proposes, among other things, that in such cases an entity shall disclose, for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, **the key assumptions** on which management based its determination of fair value less costs of disposal. We view the discount rate in a present value technique used to measure fair value less costs of disposal as being a key assumption, and therefore it would need to be disclosed.

(b) The ED proposed that when measuring fair value less costs of disposal using a present value technique, **the entity shall disclose the discount rate(s)** used in the current measurement and previous measurement, if any.

5. Accordingly, the ED proposed to amend paragraph 130(f) of IAS 36 as follows (paragraph 130(g) is also shown for context; added text is underlined):

> 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).</u> An entity is not required to provide the disclosures required by IFRS 13.
>
> (g) if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

6. The proposal in the ED aims to make the disclosure requirements for impairments recognised or reversed on the basis of fair value less costs of disposal as the recoverable amount consistent with the disclosure requirements for impairments that are based on value in use as the recoverable amount.

7. In our view, the difference between the two proposals is that the proposal in the ED always requires an entity to disclose the discount rate(s) used for the valuation technique if a material impairment is recognised or reversed on the basis of fair value less costs of disposal, regardless of whether the entity considers the discount rate to be a key assumption. On the other hand, the proposal in Agenda Paper 11 implicitly assumes that the discount rate is a key assumption when a present value technique is used. However, as written, the paper might imply that it is up to the entity to determine whether the discount rate is in fact a key assumption.

Comment letter analysis

8. The comment period for the ED ended on 5 September 2012. The IASB received 84 comment letters of which 64 respondents commented on the proposed amendments to IAS 36.

9. The vast majority of respondents supported the proposed amendment. However, one respondent thought that the proposal was too complex to be addressed through the Annual Improvements process. Another respondent did not object to the harmonisation, but recommended that the disclosure requirements in IFRS 13 should also apply, contrary to the existing wording in the last sentence of paragraph 130(f) of IAS 36.

Staff recommendation

10. If the IASB agrees to proceed with the proposal in Agenda Paper 11, the Annual Improvement will no longer be needed because the proposal in the ED will be addressed through the amendment proposed in Agenda Paper 11.

11. To avoid any doubt about whether the discount rate used in a present value technique is a key assumption, we think that the proposal in Agenda Paper 11 should be revised to specify that the discount rate is always a key assumption. Our draft text of this proposed additional requirement is as follows (the new text, in addition to that proposed in Agenda Paper 11, is underlined):

    (iii) for the 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 <u>and include the discount rate(s) used in the current measurement and previous measurement (if any), if fair value less costs of disposal is measured using a present value technique</u>.

12. For completeness, Appendix 1 to this paper contains the proposed wording for the amendments to paragraphs 130 and 134 of IAS 36, including the changes proposed in paragraph 11. **If the IASB agrees with the staff recommendation, those suggested amendments would supersede those in Appendix A of Agenda Paper 11.**

Questions for the IASB
Do you agree with the staff's recommendation to make the amendment to IAS 36 proposed in the ED through incorporating it into the amendments proposed in Agenda Paper 11, as shown in paragraph 11?

Appendix 1—Revised 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).~~ Aan 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 and include the discount rate(s) used in the current measurement and previous measurement (if any), if fair value less costs of disposal is measured using a present value technique.

…

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 of disposal).

…

Transitional provisions and effective date

…

<u>140J</u> <u>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.</u>

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 for 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.

BC4 The proposed amendments overlap with an amendment to paragraph 130(f) of IAS 36 that was proposed in the Exposure Draft *Annual Improvements to IFRSs 2010-2012 Cycle* (ED/2012/1) published in May 2012. The proposal in that Exposure Draft was intended to harmonise the disclosure requirements for value in use and fair value less costs of disposal by adding to paragraph 130(f) the requirement to disclose the discount rate(s) used in the current measurement and previous measurement, if any, if the fair value less costs of disposal is measured using a present value technique.

BC5 When discussing whether to add paragraph 130(f)(iii) to IAS 36, the IASB considered whether the discount rate used in a present value technique would be a "key assumption" as described in that proposed new paragraph. Although the IASB concluded that it would be unlikely that an entity could consider the discount rate not to be a key assumption, it wanted to ensure that an entity would always disclose the discount rate if fair value less costs of disposal is based on a present value technique. Requiring that disclosure also would align the disclosures about fair value less costs of disposal with those about value in use, which require disclosure of the discount rate used. Consequently, IASB proposes to require an explicit disclosure of the discount rate, in addition to the other key assumptions used in the measurement of fair value less costs of disposal. As a result of that decision, the IASB decided not to proceed with the amendment to IAS 36 proposed in the May 2012 Exposure Draft but to incorporate it into the amendment being made in this Exposure Draft.