

STAFF PAPER

10 May 2016

IFRS Interpretations Committee Meeting

IFRS IC November 2015

Project	Finalisation of agenda decision		
Paper topic	IAS 36—Recoverable amount and carrying amount of a cash-generating unit		
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS Standard do not purport to be acceptable or unacceptable application of that IFRS Standard—only the IFRS Interpretations Committee or the International Accounting Standards Board® (the 'Board') can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

Introduction

1. In November 2015, the IFRS Interpretations Committee ('the Interpretations Committee') published a tentative agenda decision not to add to its agenda a request to clarify the application of paragraph 78 of IAS 36 *Impairment of Assets*. This paragraph sets out the requirements for considering recognised liabilities in determining the recoverable amount of a cash-generating unit (CGU) within the context of an impairment test for a CGU.
2. The submitter questioned the approach set out in paragraph 78 of IAS 36, which requires an entity to deduct the carrying amount of the recognised liability in determining both the CGU's carrying amount and its value in use (VIU). The submitter asked whether an alternative approach should be required.
3. The Interpretations Committee observed that, when the CGU's fair value less costs of disposal (FVLCD) reflects a recognised liability, paragraph 78 requires an entity to adjust both the CGU's carrying amount and its VIU by the carrying amount of the liability. This makes the comparison of recoverable amount to carrying value meaningful.

4. The Interpretations Committee also observed that the approach in paragraph 78 of IAS 36 for considering recognised liabilities provides a straightforward and cost-effective method to perform a meaningful comparison of the measures involved in impairment testing.
5. In addition, the Interpretations Committee observed that this approach is consistent with both:
 - (a) the requirement in IAS 36 to reflect the risks specific to the CGU in the present value measurement of the CGU; and
 - (b) the requirement in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to reflect the risks specific to the liability in the present value calculation of the liability.
6. On the basis of this discussion and in the light of the existing IFRS requirements, the Interpretations Committee decided to issue a tentative agenda decision that can be found in the [IFRIC Update of November 2015](#).

Purpose of the paper

7. The purpose of this paper is to:
 - (a) provide an analysis of the comments received on the tentative agenda decision; and
 - (b) set out the wording for the final agenda decision (see **Appendix A**).

Comment letter analysis

8. The comment period for the tentative agenda decision ended on 21 January 2016. We received **four** responses from¹:
 - (a) Deloitte;
 - (b) Mazars;

¹ The comment letters from these respondents are attached to this paper (see **Appendix B**).

- (c) the Accounting Standards Committee of Germany (ASCG); and
 - (d) the Canadian Accounting Standards Board (AcSB)
9. Deloitte and Mazars agree with the Interpretations Committee's tentative decision not to add the issue to its agenda, for the reasons stated in the agenda decision.
10. The ASCG also agrees with the Interpretations Committee's tentative decision not to add the issue to its agenda, for the reasons stated in the agenda decision.

However, the ASCG questions the requirements in paragraph 78 of IAS 36. In this respect it states that (emphasis added):

We agree with the IFRS IC's view that an answer being derived from the notion of IAS 36.78 provides for sufficiently clear guidance. However, **we share the implicit question of whether the requirement of IAS 36.78 is appropriate in nature and whether this leaves room for a potential amendment to IAS 36**, e.g. as part of the post-implementation review of the standard already initiated.

11. The AcSB agrees with the Interpretations Committee's tentative decision because it thinks that the alternative approach proposed in the original submission would be inconsistent with the principles in IAS 36. In this respect the AcSB mentions that:

The submitter's proposed alternative approach could create a difference in the amount of the inseparable liability that is included in the cash-generating unit's carrying amount and the cash-generating unit's value in use due to different discount rates being used. This difference related to the inseparable liability could inadvertently affect the impairment results of the assets in the cash-generating unit.

12. Nevertheless, the AcSB proposes some revisions to the proposed wording of the tentative agenda decision, because the AcSB thinks that such revisions would

better reflect the requirements in paragraph 78 of IAS 36. We discuss these revisions in the following section.

Staff analysis

Concern that the requirements in paragraph 78 of IAS 36 are not appropriate in nature

13. From a discussion with the staff of the ASCG, we understand that the ASCG's comment about the appropriateness of paragraph 78 of IAS 36 relates to a perceived inconsistency in the approach set out in this paragraph. The staff member noted that, although the CGU is measured at its VIU, an entity deducts the carrying amount of any recognised liabilities in determining the CGU's VIU. That staff member suggested that, in determining the recoverable amount of a CGU, it might be more appropriate to deduct the VIU of the recognised liabilities rather than the carrying amount of the recognised liabilities.
14. We note that the members of the Interpretations Committee agreed that the approach in paragraph 78 of IAS 36 for considering recognised liabilities provides a straightforward and cost-effective method to perform a meaningful comparison of the measures involved in impairment testing. Consequently, we are not persuaded that this approach should be further discussed. However, we think that the ASCG's concerns regarding the approach used in paragraph 78 of IAS 36 could be further analysed as part of a broader project on IAS 36.

Proposed revisions to the wording of the tentative agenda decision

15. The AcSB disagrees with the explanation in the tentative agenda decision that the adjustment to both the CGU's carrying amount and its VIU is due to the fact that the CGU's FVLCD considers a recognised liability.
16. In their view, the reason for the adjustment should be in line with the reason provided in paragraph 78 of IAS 36, namely that an entity deducts the carrying amount of a recognised liability in determining both the CGU's carrying amount and the CGU's VIU when 'the disposal of the cash-generating unit would require the buyer to assume the liability'.

17. The AcSB also proposes explaining in the tentative agenda decision that the reason that the CGU’s FVLCD already includes the recognised liability is because the CGU’s FVLCD cannot be determined without this liability. The AcSB notes that this explanation is in line with paragraph 29 of IAS 36 which states that (emphasis added):

Sometimes, the disposal of an asset would require the buyer to assume a liability **and only a single fair value less costs of disposal is available for both the asset and the liability. Paragraph 78 explains how to deal with such cases.**

18. We agree with the suggestions made by the AcSB and, accordingly, have proposed amendments to the wording of the tentative agenda decision in Appendix A to this paper.
19. The AcSB further notes that, in applying the approach in paragraph 78 of IAS 36, an entity might apply not only the measurement requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* but also the measurement requirements of other Standards that are applicable to the liability that has been recognised. The AcSB observes that paragraph 79 of IAS 36 refers to ‘liabilities that have been recognised (for example, payables, pensions and other provisions)’. Accordingly, the recognised liabilities discussed in paragraph 78 of IAS 36 could include liabilities to which IAS 37 does not apply.
20. The AcSB also proposes that the tentative agenda decision should specifically refer to paragraph 55 of IAS 36 when noting that the measurement of VIU reflects the risks specific to the CGU.
21. We agree with the suggestions made by the AcSB and we think that the wording of the tentative agenda decision could, in principle, be modified as shown below :

~~Moreover—~~In addition, it observed that in applying paragraph 55 of IAS 36, the measurement of the CGU’s VIU reflects the current market assessments of the time value of money and the risks specific to the CGU. It also observed that the amount of the recognised liability

~~deducted in determining the CGU's VIU would reflect the measurement requirements of the relevant Standard applicable to the recognised liability. This approach is consistent with the requirement in IAS 36 to reflect the risks specific to the asset in the present value measurement of the assets in the CGU and the requirement in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to reflect the risks specific to the liability in the present value calculation of the liability.~~

22. However, in considering these comments and reading through the content of the agenda decision, we think that including these observations is possibly confusing. It might be difficult for a reader of the agenda decision to understand why these references to the measurement requirements in IAS 36 and other Standards are mentioned if that reader has not followed the Interpretations Committee's discussions. In addition, we think that the wording of the agenda decision (as set out in Appendix A to this paper) already answers the question submitted and explains the basis for the Interpretations Committee's conclusions, without these additional observations. Consequently, we recommend removing from the agenda decision these observations about the measurement requirements in IAS 36 or in any other applicable Standards.
23. The AcSB also thinks that the tentative agenda decision should make clear that the reason for including the liability in both the CGU's carrying amount and in its recoverable amount is to ensure that an entity determines the measures involved in the impairment test consistently.
24. We have not suggested changing the tentative agenda decision in this respect. We observe that paragraph 78 of IAS 36 notes that the reason for including the liability in the CGU's carrying amount and in its recoverable amount is to ensure a meaningful comparison of the measures involved in the impairment test. We think that it is better to word the agenda decision in line with the wording of paragraph 78 of IAS 36 in this respect.

25. In addition, we think that referring to consistency of measurement could be misinterpreted if it were read to imply that the measurement of VIU is entirely consistent with the measurement of FVLCD or the carrying amount.

Staff recommendation

26. After considering the comments received on the tentative agenda decision, we recommend that the Interpretations Committee should finalise its decision not to add this issue to its agenda.
27. In finalising the agenda decision, we propose to include some of the wording changes proposed by the staff of the AcSB. The proposed wording of the final agenda decision is set out in **Appendix A** to this paper.

Questions for the Interpretations Committee

Questions for the Interpretations Committee

1. Does the Interpretations Committee agree with our recommendation to finalise the agenda decision?
2. Does the Interpretations Committee have any comments on the proposed wording of the final agenda decision set out in Appendix A to this paper?

Appendix A—Final agenda decision

A1. We propose the following wording for the final agenda decision.

IAS 36 *Impairment of Assets*—Recoverable amount and carrying amount of a cash-generating unit

The Interpretations Committee received a request to clarify the application of paragraph 78 of IAS 36 *Impairment of Assets*. This paragraph sets out the guidance requirements for considering recognised liabilities for in determining the recoverable amount of a cash-generating unit (CGU) within the context of an impairment test for a CGU.

The submitter ~~observed that~~ questioned the approach set out in paragraph 78 of IAS 36, for making the CGU's carrying amount comparable with its recoverable amount produces a null result, because which requires an entity to deduct the carrying amount of any the recognised liabilities is required to be deducted both from in determining both the CGU's carrying amount and ~~from~~ its value in use (VIU). The submitter asked whether an alternative approach should be required.

The Interpretations Committee observed that, when the CGU's fair value less costs of disposal (FVLCD) considers an entity cannot determine the recoverable amount of a CGU without consideration of a recognised liability (which may occur if the disposal of a CGU would require the buyer to assume the liability), paragraph 78 of IAS 36 requires adjusting the entity to deduct the carrying amount of the recognised liability in determining both the CGU's carrying amount and its VIU by the carrying amount of the liability. In this case, the CGU's fair value less costs of disposal is determined considering the assets of the CGU and the recognised liability together, consistently with the requirements in paragraph 29 of IAS 36. This approach makes the comparison between the CGU's carrying amount and the CGU's recoverable amount of recoverable amount to carrying value meaningful.

The Interpretations Committee observed that the approach in paragraph 78 of IAS 36 for considering recognised liabilities provides a straightforward and cost-effective method to perform a meaningful comparison of the measures involved in impairment testing an impairment test for a CGU. Moreover, it observed that this approach is consistent with the requirement in IAS 36 to reflect the risks specific to the asset in the present value measurement of the assets in the CGU and the requirement in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to reflect the risks specific to the liability in the present value calculation of the liability.

In the light of the existing ~~IFRS~~ requirements in IFRS Standards, the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee and therefore [decided] not to add this issue to its agenda.

Appendix B—comment letters submitted

(included on the following page)



ASCG • Zimmerstr. 30 • 10969 Berlin

Wayne Upton
Chairman of the
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH

United Kingdom

IFRS Technical Committee

Phone: +49 (0)30 206412-12

E-Mail: info@drsc.de

Berlin, 19 January 2016

Dear Wayne,

IFRS IC's tentative agenda decisions in its November 2015 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on several tentative agenda decisions taken by the IFRS IC, as published in the November 2015 *IFRIC Update*. Please find our detailed comments in the appendix to this letter.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große or me.

Yours sincerely,

Andreas Barckow

President

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BIC (Swift-Code) DEUTDE33XXX

Register of Associations:

District Court Berlin-Charlottenburg, VR 18526 Nz

Executive Committee:

Prof. Dr. Andreas Barckow (President)
Peter Missler (Vice-President)

IAS 32 – Offsetting and cash pooling

We agree with the decision for not taking the issue onto the IFRS IC's agenda, given the many different facts and circumstances existing in practice.

IAS 36 – Recoverable amount and carrying amount of a CGU

We agree with the IFRS IC's view that an answer being derived from the notion of IAS 36.78 provides for sufficiently clear guidance. However, we share the implicit question of whether the requirement of IAS 36.78 is appropriate in nature and whether this leaves room for a potential amendment to IAS 36, e.g. as part of the post-implementation review of the standard already initiated.

January 25, 2016

(By e-mail to ifric@ifrs.org)

IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

Re: Tentative agenda decision on IAS 36 *Impairment of Assets* – Recoverable amount and carrying amount of a cash-generating unit

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision on the recoverable amount and carrying amount of a cash-generating unit. This tentative agenda decision was published in the November 2015 IFRIC Update.

In formulating the views expressed in this letter, we discussed the tentative agenda decision with several audit firm members and members of the AcSB's IFRS Discussion Group. The Group consists of members with a range of backgrounds and experience, including preparers, users and auditors of financial statements prepared in accordance with IFRSs.

We agree with the Committee's decision not to add this item to its agenda because the alternative approach proposed by the submitter (as described in the original submission) would be inconsistent with the principles in IAS 36 *Impairment of Assets*. However, we think that the tentative agenda decision requires further clarification to reflect the guidance in paragraph 78 of IAS 36. Accordingly, proposed revisions to the tentative agenda decision are included in the [Appendix](#) of this letter for the Committee's consideration.

The tentative agenda decision explains that the adjustment to both the cash-generating unit's carrying amount and its value in use is a result of when the cash-generating unit's fair value less costs of disposal considers a recognized liability. However, the reason for the adjustment should be due to the fact that the disposal of the cash-generating unit would require the buyer to assume the liability. As suggested by paragraph 29 of IAS 36, the cash-generating unit's fair value less costs of disposal includes the recognized liability because it cannot be otherwise determined without this liability. Therefore, we propose revising the tentative agenda decision to clarify this point.

When determining the carrying amount of a cash-generating unit, paragraph 76(b) of IAS 36 indicates that the carrying amount of any recognized liability is not included, unless the recoverable amount of the cash-generating unit cannot be determined without consideration of this liability (i.e., the liability is inseparable from the cash-generating unit). Similarly, when determining an asset or cash-generating unit's value in use, paragraph 43(b) of IAS 36 indicates that the cash outflows relating to obligations that have been recognized as liabilities are not included.

Therefore, we think the intent of paragraph 78 of IAS 36 is to ensure that the cash-generating unit's carrying amount and its recoverable amount are determined consistently by including the inseparable liability in both amounts. By applying the approach in paragraph 78 of IAS 36, the cash-generating unit's carrying amount would then be on a basis consistent with the way its recoverable amount (i.e., higher of the fair value less costs of disposal and value in use) is determined. This would allow for a meaningful comparison of the two amounts when performing the impairment test. We think this point can be better clarified in the tentative agenda decision.

In a value in use model, the assumption is that the cash-generating unit will be used until the end of its useful life. If the recoverable amount is determined using value in use, we think the approach in paragraph 78 of IAS 36 intends for no difference to be created in the impairment test as a result of discounting the future cash outflows of the inseparable liability. This point was discussed by our IFRS Discussion Group at its May 14, 2015 meeting (see [IAS 36: Recoverable Amount](#)). The submitter's proposed alternative approach could create a difference in the amount of the inseparable liability that is included in the cash-generating unit's carrying amount and the cash-generating unit's value in use due to different discount rates being used. This difference related to the inseparable liability could inadvertently affect the impairment results of the assets in the cash-generating unit.

Therefore, we agree with the Committee's observation in the tentative agenda decision but suggest broadening the explanation to indicate that the approach in paragraph 78 of IAS 36 would reflect the measurement requirements of the relevant standard applicable to the recognized liability. This explanation would be aligned with paragraph 79 of IAS 36 that implies "recognized liabilities" could be of any type (for example, payables, pensions and other provisions), and not only those under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

We also note that in a value in use model, paragraph 55 of IAS 36 requires that the discount rate reflect the risks specific to the asset. Paragraph 7(a) of IAS 36 indicates that the term "an asset" in paragraphs 18-57 of IAS 36 applies equally to an individual asset and a cash-generating unit. Therefore, we suggest the wording in the tentative agenda decision be revised to clarify this point.

There are practical challenges in applying the impairment testing model in IAS 36. We support the IASB assessing these challenges as part of a broader review of the Standard in its research projects on goodwill and impairment and discount rates.

We would be pleased to provide more details if you require. If so, please contact me at +1 416 204-3464 (e-mail rvillmann@cpacanada.ca), or Davina Tam, Principal, Accounting Standards at +1 416 204-3514 (e-mail dtam@cpacanada.ca).

Yours truly,

A handwritten signature in black ink that reads "Rebecca Villmann" followed by a horizontal flourish.

Rebecca Villmann, CPA, CA
CPA (Illinois)
Director, Accounting Standards

Appendix

Proposed Wording for Tentative Agenda Decision

IAS 36 Impairment of Assets—Recoverable amount and carrying amount of a cash-generating unit (Agenda Paper 14)

The Interpretations Committee received a request to clarify the application of paragraph 78 of IAS 36 *Impairment of Assets*. This paragraph sets out the guidance for considering recognised liabilities for determining the recoverable amount of a cash-generating unit (CGU) within the context of an impairment test for a CGU.

The submitter observed that the approach set out in paragraph 78 of IAS 36 for making the CGU's carrying amount comparable with its recoverable amount produces a null result, because the recognised liability is required to be deducted both from the CGU's carrying amount and from its value in use (VIU). The submitter asked whether an alternative approach should be required.

The Interpretations Committee observed that ~~when the CGU's fair value less costs of disposal (FVLCD) considers a recognised liability, the approach in paragraph 78 of IAS 36 requires including the carrying amount of the recognised liability in adjusting both the CGU's carrying amount and the CGU's its-VIU by the carrying amount of the liability when disposing the CGU would require the buyer to assume the liability. The CGU's fair value less costs of disposal (FVLCD) already includes the liability in this situation because it cannot be determined without this liability. This approach makes the comparison between the CGU's carrying amount and the CGU's recoverable amount of recoverable amount to carrying amount meaningful because both amounts would be determined consistently.~~

The Interpretations Committee observed that the approach in paragraph 78 of IAS 36 for considering recognised liabilities provides a straightforward and cost-effective method to perform a meaningful comparison of the measures involved in impairment testing. Moreover, it observed that this approach is consistent with the requirement in paragraph 55 of IAS 36 to reflect the risks specific to the asset or CGU when determining the discount rate used in measuring the asset or CGU's VIU in the present value measurement of the assets in the CGU and the requirement in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to reflect the risks specific to the liability in the present value calculation of the liability. This approach would also reflect the measurement requirements of the relevant standard applicable to the recognised liability.

In the light of the existing IFRS requirements the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard was necessary and therefore {decided} not to add this issue to its agenda.

Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

18 January 2016

Dear Mr Upton

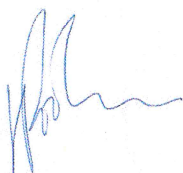
Tentative agenda decision – IAS 36 *Impairment of Assets*: Recoverable amount and carrying amount of a cash-generating unit

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the November IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for clarification of the guidance in paragraph 78 of IAS 36 on considering recognised liabilities in the determination of the recoverable amount of a cash-generating unit.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS Leader

Mr. Wayne Upton

IFRS Interpretation Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Paris, January 29, 2016

RE: IFRS Interpretations Committee tentative agenda decisions, November 2015

Dear Wayne,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the September IFRIC Update.

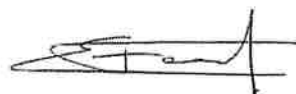
We have gathered all our comments as appendices to this letter. Should you prefer us to prepare separate comment letter for each tentative agenda decision, please let us know.

Should you have any questions regarding our comments, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Best regards,



Michel Barbet-Massin
*Head of Financial Reporting
Technical Support*



Edouard Fossat
*Deputy Head of Financial Reporting
Technical Support*

Appendix 6

IAS 36 Impairment of Assets—Recoverable amount and carrying amount of a cash-generating unit (Agenda Paper 14)

We agree with the IFRS Interpretations Committee’s decision not to add this issue onto its agenda, and with the rationale expressed in the tentative agenda decision.