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STAFF PAPER

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Project	**Disclosure Initiative—Subsidiaries that are SMEs**		
Paper topic	Disclosure about cash-generating units containing goodwill and intangible assets with indefinite useful lives		

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Introduction

1. This paper asks the Board whether and, if so, which disclosure requirements should be proposed in a possible reduced-disclosure IFRS Standard for cash-generating units containing goodwill or intangible assets with indefinite useful lives.

2. In accordance with the Board's agreed approach for developing suggested disclosure requirements for a proposed reduced-disclosure IFRS Standard:

   (a) IAS 36 *Impairment of Assets* and Section 27 *Impairment of Assets* of the *IFRS for* SMEs Standard were analysed for recognition or measurement differences;

   (b) the disclosure requirements of Section 27 of the *IFRS for* SMEs Standard were applied and adapted if there was a recognition or measurement difference between IFRS Standards and the *IFRS for* SMEs Standard; and

   (c) the adaptions were developed applying the disclosure principles the Board applies when developing disclosure requirements for the *IFRS for SMEs* Standard, which are set out in paragraph BC157 of the *IFRS for SMEs* Standard.

3. This paper is structured as follows:

   (a) background (paragraphs 4–6);

   (b) staff analysis (paragraphs 7–17);

      (i) *none* of the disclosure requirements in IAS 36 (paragraph 11);

      (ii) *all* the disclosure requirements in IAS 36 (paragraph 12);

      (iii) *some* of the disclosure requirements in IAS 36 (paragraphs 13–17);

   (c) staff recommendation (paragraphs 18–19);

   (d) Appendix A—Summary of staff recommendation together with the requirements of IAS 36.

Background

4. There is a recognition and measurement difference between IFRS Standards and the *IFRS for SMEs* Standard relating to the accounting for goodwill and intangible assets with indefinite useful lives:

   (a) applying IFRS Standards, goodwill and intangible assets with indefinite useful lives are not amortised but are tested for impairment annually (paragraph B63(a) of IFRS 3 *Business Combinations*, paragraph 107 of IAS 38 *Intangible Assets* and paragraph 10 of IAS 36).

   (b) applying the *IFRS for SMEs* Standard, all intangible assets, including goodwill, are measured at cost less accumulated amortisation and accumulated impairment (paragraph 18.18 of Section 18 *Intangible Assets other than Goodwill* and paragraph 19.23 of Section 19 *Business Combinations and Goodwill*). Those assets are considered to have a finite life, and if an entity cannot establish reliably their useful life, the life is determined based on management's best estimate but shall not exceed 10 years. Further, those assets are subject to an impairment test only if there is an indication that they are impaired (paragraph 27.7 of Section 27).

5. Paragraphs 134–137 of IAS 36 (reproduced in a tabular form in Appendix A to this paper) set out the disclosure requirements about estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives. No similar or equivalent disclosures are required by the *IFRS for SMEs* Standard.

6. As explained in paragraph 2, the staff have analysed Section 27 and IAS 36 and have developed suggested disclosure requirements for the proposed reduced-disclosure IFRS Standard. In developing the analysis, the staff considered whether and how the recognition and measurement difference affects the disclosure requirements, and paragraphs 134–135 of IAS 36 were analysed against paragraph BC157 of the *IFRS for SMEs* Standard. The adapted disclosure requirements have been reviewed by Board members and one Board member noted it could be argued that all, some or none of the requirements could be included in the suggested disclosure requirements.

Staff analysis

7. Paragraph BC205 of IAS 36 explains that because non amortisation of goodwill and indefinite lived intangibles increases the reliance placed on impairment tests of those assets, some additional disclosure is necessary to provide users with information for evaluating the reliability of those impairment tests.

8. The disclosure requirements in IAS 36 about cash-generating units containing goodwill and intangible assets with indefinite useful lives are:

   (a) paragraph 134 applies to cash-generating unit(s) for which goodwill or other intangible assets with indefinite useful lives are allocated and are significant in comparison with the total carrying amount of goodwill and other intangible assets with indefinite useful lives;

   (b) paragraph 135 applies to cash generating unit(s) for which disclosures required by paragraph 134 do not apply;

(c) paragraph 136 provides guidance when the calculation made in a preceding period of the recoverable amount is carried forward and used in the impairment test in the current period; and

(d) paragraph 137 refers to an example that illustrates the disclosures required by paragraphs 134–135.

9. This paper considers each of the alternatives in the Board member's comment (see paragraph 6), that is, that the proposed reduced-disclosure IFRS Standard could include:

(a) *none* of the disclosure requirements of paragraphs 134–135 of IAS 36 (paragraph 11);

(b) *all* the disclosure requirements of paragraphs 134–135 of IAS 36 (paragraph 12); or

(c) *some* of the disclosure requirements of paragraphs134–135 of IAS 36 (paragraphs 13–17).

10. In considering the Board member comment the staff have taken into consideration feedback on users' information needs. To obtain an understanding of users' information needs the staff held discussions with users of small and medium-sized entities (SMEs) financial statements. The staff noted different users considered goodwill and intangible assets in their credit analysis to a varying degree (ie some considered them in their analysis and some do not). Some users said information about impairment of these assets is important. Specifically, the cause of impairment and whether it will affect the SME's future cash flows and sustainability of the business allowing them to seek or request additional information from these SMEs.

None of the disclosure requirements of paragraphs 134–135 of IAS 36

11. Although, the *IFRS for SMEs* Standard requires goodwill and all other intangible assets to be amortised, they are still subject to impairment tests when an indicator(s) of impairment is present. The *IFRS for SMEs* Standard does not require disclosures equivalent to those required by paragraphs 134 and 135 of IAS 36 when an entity carries out an impairment test. It could therefore be argued that the disclosure requirements in Section 27 satisfy the project objective and no additional disclosure requirements are needed. Such an approach would not be inconsistent with feedback (see paragraph 10) that users of SME financial statements consider goodwill and impairment in the credit analysis to a varying degree.

All the disclosure requirements of paragraphs 134–135 of IAS 36

12. Disclosure requirements in paragraphs 134–135 provide users with information for evaluating the reliability of the impairment tests. Applying the principles in paragraph BC157 of the *IFRS for SMEs* Standard, it could be argued that *all* these disclosure requirements should be included in the proposed reduced-disclosure IFRS Standard because information about measurement uncertainty is important and the requirements are designed to give information for evaluating the reliability of the impairment test that is inherently based on estimate and judgment. This is consistent with the feedback that some users find information about impairment useful (see paragraph 10).

Some of the disclosure requirements of paragraphs 134–135 of IAS 36

13. Given the importance of disclosures about the impairment test (see paragraphs 7 and 10), some of the disclosure requirements in paragraphs 134–135 of IAS 36 could be included in the proposed reduced-disclosure IFRS Standard. The Board has previously said that a reduced-disclosure IFRS Standard will reduce costs for subsidiaries that are SMEs. The staff think requiring some of the disclosure requirements of paragraphs 134–135 is appropriate in satisfying information needs and cost-benefit considerations.

14. In analysing paragraphs 134–137 of IAS 36 the staff suggest the following disclosures:

    (a) sub-paragraphs 134(d)(i) and 134(e)(i) as they provide information about short-term cash flows, liquidity, solvency and measurement uncertainty.

    (b) sub-paragraph 134(e)(iiA) as it is consistent with the disclosure requirements considered for IFRS 13 *Fair Value Measurement*.

    (c) sub-paragraphs 134(a)–(c) as they give context to the above disclosures.

    (d) sub-paragraphs 135(a)–(c) as they address similar disclosures required by sub-paragraphs 134(a), 134(b) and 134(d)(i).

    (e) the guidance in paragraph 136 would also be relevant if some of the disclosures required by paragraphs 134–135 are added.

15. On balance, the staff think that although the remaining disclosures in paragraphs 134–135 could provide additional information about measurement uncertainty, they should not be included in the reduced-disclosure IFRS Standard.

16. Paragraph 137 refers to an illustrative example that accompanies but is not part of IAS 36. The staff does not recommend including this paragraph in the reduced-disclosure IFRS Standard.

17. If the disclosure requirements identified in paragraph 14 are included in the proposed reduced-disclosure IFRS Standard, such disclosures should provide useful information to users of SME financial statements at a cost justified by the benefits of that information. The staff also think that such disclosures would provide information that some users identified as important about impairment in paragraph 10.

Staff recommendation

18. Based on the analysis in paragraphs 7–17, the staff recommend that the proposed reduced-disclosure IFRS Standard, includes disclosure requirements about cash-generating units containing goodwill or intangible assets with indefinite useful lives listed in paragraph 14 of this paper that is based on some of the disclosure requirements of paragraphs 134–137 of IAS 36.

19. A summary of the staff recommendation together with the requirements of paragraphs 134–137 of IAS 36 in tabular form is in Appendix A to this paper.

Question for the Board
Does the Board agree with the staff recommendation in paragraph 18, summarised in Appendix A, that the proposed reduced-disclosure IFRS Standard includes the disclosure requirements listed in paragraph 14 of this paper?

Appendix A—Summary of staff recommendation together with the requirements of IAS 36

Extract from IAS 36 *Impairment of Assets*	Adapted into the proposed reduced-disclosure IFRS Standard?
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:	Yes
(a) the carrying amount of goodwill allocated to the unit (group of units).	Yes
(b) the carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units).	Yes
(c) 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).	Yes
(d) if the unit's (group of units') recoverable amount is based on value in use:	Yes
(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.	Yes
(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.	No
(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.	No
(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	No

Extract from IAS 36 *Impairment of Assets*	Adapted into the proposed reduced-disclosure IFRS Standard?
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.	No
(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:	Yes
(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.	Yes
(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.	No
(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').	Yes
(iiB) if there has been a change in valuation technique, the change and the reason(s) for making it.	No
If fair value less costs of disposal is measured using discounted cash flow projections, an entity shall disclose the following information:	No
(iii) the period over which management has projected cash flows.	
(iv) the growth rate used to extrapolate cash flow projections.	No
(v) the discount rate(s) applied to the cash flow projections.	No
(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	No

Extract from IAS 36 *Impairment of Assets*	Adapted into the proposed reduced-disclosure IFRS Standard?
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.	No
(ii) the value assigned to the key assumption.	No
(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.	No
135 If some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple cash-generating units (groups of units), and the amount so allocated to each unit (group of units) is not significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to those units (groups of units). In addition, if the recoverable amounts of any of those units (groups of units) are based on the same key assumption(s) and the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to them is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:	Yes
(a) the aggregate carrying amount of goodwill allocated to those units (groups of units).	Yes
(b) the aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units (groups of units).	Yes
(c) a description of the key assumption(s).	Yes
(d) a description of management's approach to determining the value(s) assigned to the key assumption(s), 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.	No
(e) if a reasonably possible change in the key assumption(s) would cause the aggregate of the	No

Extract from IAS 36 *Impairment of Assets*	Adapted into the proposed reduced-disclosure IFRS Standard?
units' (groups of units') carrying amounts to exceed the aggregate of their recoverable amounts:	
(i) the amount by which the aggregate of the units' (groups of units') recoverable amounts exceeds the aggregate of their carrying amounts.	No
(ii) the value(s) assigned to the key assumption(s).	No
(iii) the amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' (groups of units') recoverable amounts to be equal to the aggregate of their carrying amounts.	No
136 The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit (group of units) may, in accordance with paragraph 24 or 99, be carried forward and used in the impairment test for that unit (group of units) in the current period provided specified criteria are met. When this is the case, the information for that unit (group of units) that is incorporated into the disclosures required by paragraphs 134 and 135 relate to the carried forward calculation of recoverable amount.	Yes
137 Illustrative Example 9 illustrates the disclosures required by paragraphs 134 and 135.	No