
IASB Meeting

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Project	Business Combinations—Disclosures, Goodwill and Impairment
Topic	Other suggestions to reduce cost and complexity
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Purpose and structure

1. This paper includes our analysis and recommendations on some of the other suggestions to reduce the cost and complexity of the impairment test of cash-generating units (CGUs) containing goodwill in IAS 36 *Impairment of Assets* (impairment test). The [Discussion Paper Business combinations — Disclosures, Goodwill and Impairment](#) sets out the IASB's preliminary views.
2. Paragraphs 6–10 of Agenda Paper 18 explain the matters considered in this paper. The structure of the paper is as follows:
 - (a) Difference between VIU and FVLCD (paragraphs 3–8);
 - (b) A single method for measuring recoverable amount (paragraphs 9–17);
 - (c) Other suggestions (paragraphs 18–19); and
 - (d) Summary of staff recommendations (paragraphs 20–21).

Difference between VIU and FVLCD

Preliminary view

3. The IASB considered clarifying the difference between entity-specific inputs used in value in use (VIU) and market-participant inputs used in fair value less costs of disposal (FVLCD) but decided not to do so. Paragraph 4.56(a) of the Discussion Paper notes the IASB's view that the requirements in IAS 36 and IFRS 13 *Fair Value Measurement* are sufficient.
4. Paragraphs 30, 53A and Appendix A of IAS 36 include requirements on VIU and there is also some discussion in paragraph BC60 of IAS 36. Paragraphs 3, 11, 12, 16, 22, 23 and B2 of IFRS 13 include requirements on fair value and, hence, on FVLCD.

Feedback

5. Many respondents across all jurisdictions, including preparers and national standard-setters, agreed with the preliminary view.
6. However, some respondents, including some accounting firms and a few accounting bodies and regulators, suggested providing additional guidance on the difference between entity-specific inputs used in VIU and market-participant inputs used in FVLCD. They said differentiating assumptions and inputs used in the two models is a source of significant challenge and simplifying VIU estimation (see Agenda Paper 18A to this meeting) would further blur the distinction between the two methods.
7. A few respondents said the additional guidance should:
 - (a) clarify how to adjust inputs to reflect a market participant's perspective; and
 - (b) elaborate further the example of factors not available to market participants (listed in paragraph 53A of IAS 36).

Staff analysis

8. In our view the IASB should maintain its preliminary view. We think the feedback supports this view because:
- (a) many respondents agreed with the IASB's preliminary views for the reasons set out by the IASB.
 - (b) responses from those disagreeing did not raise new information (see [Agenda Paper 18C](#) to the December 2017 IASB meeting). Although we understand there may be challenges in applying the requirements in IAS 36, we continue to think the requirements in IAS 36 and IFRS 13 are sufficient.

A single method for measuring recoverable amount**Preliminary view**

9. IAS 36 defines recoverable amount as the higher of an asset's or cash-generating unit's FVLCD and its VIU. The IASB considered requiring a single method for measuring the recoverable amount of an asset or CGU.
10. However, as paragraph 4.56(b) of the Discussion Paper notes, the IASB's preliminary view was not to do so because the IASB considered that the IASB's reasons for basing the definition of recoverable amount on both VIU and FVLCD when developing IAS 36 remain valid. In summary, if an entity can generate greater cash flows by using an asset, basing its recoverable amount on market price would be misleading, because a rational entity would not be willing to sell. Similarly, if an asset's FVLCD is higher than its VIU, a rational entity will dispose of the asset and an impairment loss would be unrelated to economic reality. But if management decides to keep the asset, the extra loss properly falls in later periods because it results from management's decisions in those later periods to keep the asset.

Feedback

11. Some respondents, including some accounting firms and national standard-setters, suggested mandating only one method for measuring the recoverable amount of an asset. Most of these respondents did not express any preference for which method should be adopted, however:
 - (a) a few respondents suggested prescribing the use of FVLCD because, in their view, the simplifications in VIU estimation (see Agenda Paper 18A to this meeting) would bring the estimation of VIU closer to FVLCD and the reasons in the Discussion Paper for retaining two methods for measuring recoverable amount were not compelling; and
 - (b) a preparer group said, if only one method for measuring the recoverable amount were to be retained, VIU should be used because in their view, it better reflects management's expectations for the CGU.

12. Many respondents, mainly preparers and national standard-setters, agreed with the IASB's preliminary view because:
 - (a) mandating one method would not result in a significant reduction in cost and complexity because entities are not required to determine both measures of recoverable amount;
 - (b) determining the recoverable amount as the higher of the VIU and FVLCD better reflects the economics because it considers the different options available to an entity to recover the value of an asset (for example, FVLCD may not reflect the value derived from synergies available to the entity that would be captured by VIU);
 - (c) valuation inputs for determining FVLCD may not always be observable; and
 - (d) FVLCD can be used to test the reasonableness of the recoverable amount determined using the VIU method.

13. A few respondents commented on requiring an entity to select the method that reflects the way it expects to recover an asset. Applying this approach, for example, FVLCD

would be used only for those assets expected to be disposed in a determined time frame. A few national standard-setters supported this approach, however a few other respondents said that it may be difficult to operationalise relevant criteria in cases in which the intent is to dispose of the asset but the criteria in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are not met.

Staff analysis

14. We reviewed feedback from respondents that disagreed with the preliminary view. The primary reason for disagreeing was that the IASB's preliminary view to remove the restriction on including cash flows from future restructuring and asset enhancements in the estimation of VIU (see Agenda Paper 18A to this meeting) will result in the estimation of VIU and FVLCD being so similar that it would be unnecessary to have different models for measuring the recoverable amount.
15. The IASB considered this when it developed its preliminary view. As noted in Appendix A of [Agenda Paper 18C](#) to the IASB's December 2017 meeting, differences in estimating VIU and FVLCD will remain.
16. The IASB's comparison of VIU and FVLCD highlighted similarities between VIU and FVLCD but also highlighted differences. For example, VIU can only be measured for an individual asset if it generates cash flows that are largely independent of those from other assets or groups of assets, whereas the fair value of an individual asset can be measured irrespective of whether it generates independent cash flows. Paragraph 53A of IAS 36 highlights differences between VIU and FVLCD.
17. In our view, the IASB should maintain its preliminary view not to mandate one method measuring recoverable amount because:
 - (a) many respondents agreed for the reasons set out by the IASB; and
 - (b) those disagreeing did not provide compelling evidence the IASB has not considered in developing its preliminary view.

Other suggestions

Feedback

18. A few respondents said additional guidance on the following aspects of the impairment test could help reduce its cost and complexity:
- (a) Financial services sector—a few respondents said the existing requirements are written for non-financial services businesses and, therefore, entities and auditors face additional costs and complexity in applying IAS 36 in the financial services sector.
 - (b) Control premium—a few respondents suggested clarifying whether the FVLCD of a listed CGU should reflect a control premium.
 - (c) VIU estimated in foreign currency—an accounting firm suggested permitting an entity to estimate future cash flows in a currency different from the one in which those cash flows are generated. They said this would reduce complexity if an entity has assets generating cash flows in many different currencies, especially if the cash flows generated are in the currency of a hyperinflationary economy.

Staff analysis

19. We think:
- (a) IFRS Accounting Standards strive to be industry agnostic and therefore no changes should be made to IAS 36 to address matters for a specific sector; and
 - (b) control premium¹ and foreign currency cash flows matters are beyond the scope of the project. In our view, these matters relate more to the interaction

¹The IASB considered a question about prioritising level 1 inputs or the unit of account (including whether valuations should be adjusted for the value of control) in the post-implementation review of IFRS 13 *Fair Value Measurement*. The IASB decided not to conduct any follow-up work.

between IAS 36 and IFRS 13 and IAS 21 *Foreign currency* and not to the interaction between IFRS 3 *Business Combinations* and IAS 36.

Summary of staff recommendations

20. We recommend that the IASB maintain its preliminary views not to:
- (a) add more guidance about the difference between VIU and FVLCD (paragraph 8); and
 - (b) mandate a single method for measuring recoverable amount (paragraphs 14–17).
21. We also recommend that IASB not pursue as part of this project providing additional guidance on performing the impairment test:
- (a) to address the interaction between IAS 36 and IFRS 13/ IAS 21; and
 - (b) for the financial services sector.

Question for the IASB

Does the IASB agree with the staff recommendations in paragraphs 20–21?