IFRS Accounting

Staff paper

Agenda reference: 4B

IFRS Interpretations Committee meeting

Date	**September 2025**
Project	**Business Combinations—Disclosures, Goodwill and Impairment**
Topic	**Restructuring and asset enhancement cash flows**
Contacts	**Vikash Kalidas** (vkalidas@ifrs.org)

Purpose

The purpose of this discussion is to seek your views on developing an example to illustrate the current potential of an asset to be restructured, improved or enhanced included in the Exposure Draft *Business Combinations—Disclosures Goodwill and Impairment*.

We are not asking for your views on other aspects of the proposals (for example, allocating goodwill for impairment testing) in this meeting. For purposes of answering our questions, please assume that the requirements are similar to what was proposed in the Exposure Draft.

Structure

The slides are structured as follows:

- Background (slides 4−8);
- IASB’s initial discussion and development of an example (slides 9−11);
- Questions (slides 12−13);
- Example (Appendix A); and
- Further background (Appendix B).

Background

Background

Applying IAS 36, the recoverable amount of an asset or cash-generating unit (CGU) is the higher of its fair value less costs of disposal (FVLCD) and its VIU. In calculating VIU, paragraph 44 of IAS 36 currently requires:

> 44 Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:
>
> (a) a future restructuring to which an entity is not yet committed; or
>
> (b) improving or enhancing the asset's performance

**For ease of reference, we refer to the cash flows in paragraph 44(a) and 44(b) of IAS 36 as 'restructuring and enhancement cash flows'.*

Background (cont.)

The IASB proposed to remove the requirement to exclude restructuring and enhancement cash flows. Paragraph BC205 of the Basis for Conclusions on the Exposure Draft (Basis for Conclusions) states:

> The IASB proposes to remove that [requirement]. In the IASB's view, doing so would:
>
> (a) reduce cost and complexity—removing the [requirement] would reduce the need to amend management's financial budgets or forecasts. Stakeholders said it can be challenging for management to distinguish maintenance capital expenditure from expansionary capital expenditure and identify which cash flows need to be excluded because they relate to expansionary capital expenditure.
>
> (b) make the impairment test less prone to error because estimates of value in use would be based more closely on cash flow projections that are prepared, monitored and used internally for decision-making.
>
> (c) make the impairment test easier to understand, perform, audit and enforce.

Background (cont.)

Paragraph BC212 of the Basis for Conclusions states:

> The IASB is proposing no change to the requirement in paragraph 44 of IAS 36 to estimate cash flows for an asset in its current condition. In the IASB's view, this requirement is consistent with permitting cash flows from a future restructuring or asset enhancement if the asset contains the current potential to generate those cash flows, even if the asset is being used in a different way. The IASB proposes to add paragraph 44A of IAS 36 to explain this interaction.

Background (cont.)

Paragraph 44A of the Exposure Draft states:

> 44A Estimates of future cash flows of an asset in its current condition include:
>
> (a) …
>
> (b) future cash flows associated with the current potential of the asset to be restructured, improved or enhanced. If the asset has the current potential to be restructured, improved or enhanced, and the cash flow projections associated with the restructuring, improvement or enhancement meet the requirements in paragraph 33, estimates of future cash flows for the asset shall include estimated future cash inflows and outflows that are expected to arise from that restructuring, improvement or enhancement.

**For simplicity, we refer to 'current potential of an asset to be restructured, improved or enhanced' as an 'asset's current potential' throughout the rest of this slide deck.*

IASB’s initial discussion and developing an example

IASB’s initial discussion

The IASB discussed feedback on its proposal and our analysis of that feedback at its meeting in July 2025. Appendix B to this paper provides a summary of feedback on the proposals and our initial views on some aspects of that feedback.

In its discussions, the IASB directed us to consult about the possibility of developing an example to help stakeholders better understand and apply the concept of current potential of an asset to be restructured, improved or enhanced.

Developing an example

In its discussions in July 2025, IASB members acknowledged there could be benefits and costs associated with updating or developing examples to help stakeholders better understand and apply the concept of an asset's current potential. For instance:

- providing examples of cash flows that reflect an asset's current potential and cash flows which don't reflect such current potential can help stakeholders better understand and apply the concept of an asset's current potential.
- however, any example would, by its nature, be limited in terms of the facts and circumstances it can illustrate. This could lead to further questions and application challenges when entities have fact patterns and circumstances that differ from those illustrated within the example.

We have tried to develop an example that would illustrate cash flows that reflect an asset (or CGU)'s current potential and cash flows which don't reflect such current potential. Appendix A to this paper includes that example.

Questions

Questions

1. Considering the benefits and costs (see slide 11), do you think the IASB should develop an example that illustrates cash flows that reflect an asset's current potential as well as cash flows that do not reflect such potential?

2. Would an example similar to that included in Appendix A to this paper help stakeholders better understand and apply the concept of an asset's current potential? Why or why not? If not, what changes would you suggest and why.

Appendix A—Example

Example

Please note:

- the example in this appendix includes information we think we can include in an example to help stakeholders better understand and apply the concept of an asset's current potential. Any example we may include with the final amendments could differ in content and format from what has been presented here.
- we are not asking for drafting suggestions on the example.

Example: Background

At the end of 20X1, entity G tests a production facility for impairment. The facility is a cash-generating unit (CGU).

The facility consists of two sections:

- Section A, which is currently operational and generating cash flows; and
- Section B, which is an unused warehouse with potential to be developed to extend the facility's existing production capacity.

Management has assessed that developing and operating Section B as an extension of the facility's existing production capacity is financially feasible and has approved the budget which includes the cash flows from the development plan. Section B has the necessary zoning, operational and regulatory permits needed for the development.

Management's approved budget includes estimates of:

- future cash inflows and outflows from the continued operation of Section A.
- future cash outflows required to develop Section B. This work is expected to be completed by 20X3.
- future cash inflows and outflows from operating Section B after the planned completion of the development work in 20X3.

The forecasted cash inflows and outflows included in the approved budget are reasonable and supportable.

In addition to the planned development of Section B, management is contemplating acquiring an adjacent piece of land to further extend the production facility. However, management is currently in the process of assessing the financial feasibility of this plan and the entity has not yet acquired the land or obtained necessary zoning, operational and regulatory permits related to this additional piece of land.

Example: Application of proposed IAS 36 requirements

Development of Section B

Proposed paragraph 44A(b)—see slide 8—requires the asset (or CGU) to have the current potential to be restructured, improved or enhanced, and the cash flow projections associated with the restructuring, improvement or enhancement to meet the requirements in paragraph 33 of IAS 36.

Applying this paragraph, management assesses that:

- the production facility has the current potential to be restructured, improved or enhanced through the development of Section B because:
    - the entity already owns Section B;
    - the entity has the necessary zoning, operational and regulatory permits needed for the development; and
    - the development is financially feasible.
- the cash flow projections meet the requirements in paragraph 33(a) and 33(b) of IAS 36. The cash flow projections are reasonable and supportable and they are part of the approved budgets. In calculating value in use (VIU), management must apply paragraph 33(c) of IAS 36 when estimating any cash flow projections beyond the period covered by the approved budget.

Consequently, management includes any cash flows from the planned development of Section B in calculating VIU of the production facility. The VIU calculation would—include:

- cash inflows and outflows from the continued operation of Section A;
- cash outflows from the planned development of Section B; and
- cash inflows and outflows from operating Section B after development work is completed in 20X3.

Acquisition of adjacent piece of land

Applying proposed paragraph 44A(b) of IAS 36, management assesses that its plan to acquire an adjacent piece of land does not form part of the production facility's current potential. In particular:

- the entity has not acquired the adjacent piece of land;
- the entity does not have the necessary zoning, operational and regulatory permits needed for the acquisition and subsequent development; and
- management has not assessed whether the acquisition and subsequent development is financially feasible.

Consequently, management does not include any future cash flows from the planned acquisition and development in calculating the production facility's VIU.

Appendix B—Further background

Further background

Agenda Paper 18B of the IASB January 2025 meeting summarises feedback on the proposal to remove the requirement to exclude uncommitted future restructuring and asset enhancement cash flows from value in use . As paragraphs 3–4 of that agenda paper notes:

(a) many respondents agreed with the proposal for reasons consistent with those considered by the IASB. Some who agreed suggested providing further application guidance such as defining ‘current condition’ and ‘current potential’ of an asset or adding illustrative examples.

(b) many respondents disagreed with the proposal. Many of these respondents said removing this requirement could increase the level of judgement required to calculate VIU and increase management over-optimism. Some who disagreed said the proposal could worsen the problem of impairment losses on goodwill sometimes being recognised too late.

Further background (cont.)

For reasons set out in paragraphs 8−37 of Agenda Paper 18B of the IASB's July 2025 meeting, the IASB intends to do no further work on some of the suggestions made by respondents in relation to this

Suggestion	Reason
Including additional safeguards or constraints on inclusion of restructuring and enhancement cash flows in VIU	Similar suggestions were considered in developing the Exposure Draft and are likely to add costs and reduce the benefits of the proposal.
Adding disclosure requirements	Likely to add costs because entities would have to separately track restructuring and enhancement cash flows.

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