
IASB® Meeting

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Project	Business Combination—Disclosures, Goodwill and Impairment
Topic	Restructuring and enhancement cash flows
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Purpose and structure

1. As Agenda Paper 18 explains, this paper provides the International Accounting Standards Board (IASB) with our updated analysis and asks the IASB if it agrees with our recommendation to retain the proposal to remove from IAS 36 *Impairment of Assets* the requirement to exclude cash flows from uncommitted future restructurings and asset enhancements when calculating value in use (VIU) of an asset, a cash-generating unit (CGU) or a group of cash-generating units (CGUs).
2. The paper is structured as follows:
 - (a) background (paragraphs 3–16);
 - (b) feedback from additional outreach and updated staff analysis (paragraphs 17–34);
 - (c) staff recommendations (paragraphs 35–36);
 - (d) question for the IASB;
 - (e) Appendix A—Draft example; and
 - (f) Appendix B—Feedback on removing the requirement.

Background

3. Applying IAS 36, the recoverable amount of an asset or 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.

4. 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' throughout this paper.

5. The [Exposure Draft Business Combinations—Disclosures, Goodwill and Impairment](#) (Exposure Draft) 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:

BC205 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.

6. Paragraph BC212 of the [Basis for Conclusions](#) states:

BC212 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.

7. 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.

8. 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 paper.

Feedback on Exposure Draft

9. [Agenda Paper 18B](#) of the IASB's July 2025 meeting (July agenda paper) analyses feedback from comment letters on the [Exposure Draft](#) regarding the proposal to remove the requirement to exclude restructuring and enhancement cash flows.
10. Many respondents agreed with the proposal for reasons consistent with those considered by the IASB (see paragraph 5). Many respondents agreed and said the proposal would reduce the need to make adjustments to the most recent internal cash flow projections, which can be arbitrary, resource consuming and complex. Some who agreed suggested providing further application guidance such as defining 'current condition' and 'current potential' of an asset or adding illustrative examples.
11. 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.
12. Some respondents suggested adding illustrative examples to help stakeholders understand and apply the concept of an asset's current potential.

Redeliberation status

13. The [July agenda paper](#) included our initial analysis of feedback. As that paper noted, our initial view was:
 - (a) to retain the proposal to remove from IAS 36 the requirement to exclude restructuring and enhancement cash flows when calculating VIU of an asset or a CGU.
 - (b) to do no further work on other suggestions made by respondents in relation to this proposal, such as:

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- (i) including additional safeguards or constraints (see paragraphs 14–16 of the [July agenda paper](#));
 - (ii) adding disclosure requirements (see paragraphs 17–21 of the [July agenda paper](#));
 - (iii) clarifying the interaction with IAS 37 (see paragraphs 28–31 of the [July agenda paper](#)); or
 - (iv) clarifying the remaining differences between VIU and FVLCD or reconsidering whether to maintain both methods (see paragraphs 32–37 of the [July agenda paper](#)).
14. We had not reached a view on whether to include an illustrative example as suggested in paragraph 12 and the IASB directed us to consult further on developing an illustrative example.
15. This paper presents feedback from that consultation and our updated analysis.

Additional outreach performed

16. Following the IASB's July 2025 meeting, we consulted with the [Accounting Standards Advisory Forum](#) (ASAF), the [IFRS Interpretations Committee](#) (Interpretations Committee) and the [Global Preparers Forum](#) (GPF) on whether to develop an illustrative example. Appendix A reproduces the draft example we shared with the consultative bodies (draft example).

Feedback from additional outreach and updated staff analysis

17. Most ASAF members support adding an illustrative example while Interpretations Committee and GPF members express mixed views.
18. Members who support adding an illustrative example said:
- (a) examples would help them understand and apply the requirements; and

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- (b) could reduce diversity in application of the requirements.
19. Members who do not support adding an illustrative example said:
- (a) the examples would not depict realistic scenarios; and
 - (b) the examples could potentially be interpreted as narrow guidelines by auditors and regulators.
20. Members also comment on:
- (a) complexity of the draft example (paragraphs 23–25);
 - (b) implication of additional requirements (paragraphs 26–27); and
 - (c) explanation of ‘an assets current potential’ (paragraph 28).
21. Paragraphs 23–28 provide more detailed feedback on the draft example and paragraphs 29–34 analyse that feedback.
22. Although we asked the consultative bodies only about developing an illustrative example, a few members provided other feedback on the proposal to remove the requirement to exclude restructuring and enhancement cash flows. The feedback (reported in Appendix B) was consistent with feedback we already considered when developing our initial views summarised in paragraph 13 and does not change those views.

Feedback on the draft example

Complexity

23. Some members say the draft example is overly simplistic or presents cash flows that would clearly be included or excluded, rather than illustrating the more judgemental situations that arise in practice.
24. Suggestions to illustrate more judgemental situations, and therefore make any example more helpful, included illustrating situations involving:

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- (a) situations with less certainty—for example, where an entity has applied for necessary zoning, operational and regulatory permits but has not yet received them;
 - (b) intangible assets;
 - (c) multiple CGUs or groups of CGUs;
 - (d) sustainability-related restructuring; and
 - (e) multiple probability-weighted scenarios.
25. Although the draft example included two variations, some members suggest including more variations to help entities better understand and apply the dividing line between cash flows that reflect current potential and those that do not. Members say this approach could show how the principle applies in different circumstances without creating an overly complex single example.

Avoid implying additional requirements

26. Some members say any example should not imply additional requirements. For example:
- (a) a few members say the draft example (reproduced in Appendix A) could be seen as being introducing more requirements when assessing which cash flows to include in VIU than were implied by the [Exposure Draft](#) proposal. For example, they say the example suggested a requirement to have documentation supporting the cash flows.
 - (b) one member says the draft example referred to the entity having obtained the necessary permits but said if an entity has reasonable, supportable and economically feasible information about a restructuring or asset enhancement and the intention to do so, then it should be able to include cash flows related to that restructuring or enhancement even without having obtained the necessary permits.

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27. Members also caution on the wording of the example. For example, one member says the word 'feasibility' could have a specific meaning in the extractives industry that could differ from its intended use in the draft example. Another member says if the example uses existing criteria in IAS 36, it should more clearly explain the link back to those criteria.

Explanation of an asset's current potential

28. Some members suggest explaining more clearly the concept of an asset's current potential in any example. Members suggest explaining the difference between an asset's current potential, current condition and asset enhancement. One member says if an asset's current potential was more clearly explained, then examples would only need to show when cash flows cannot be included in VIU.

Staff analysis

Developing an illustrative example

29. Overall, most ASAF members support adding an illustrative example and Interpretations Committee and GPF members express mixed views. We acknowledge respondents' reasons for requesting an example and think including examples of cash flows that reflect an asset's current potential and cash flows that don't reflect such current potential could help stakeholders better understand and apply the concept of an asset's current potential.
30. However, as feedback highlights the assessment of restructuring and enhancement cash flows is by nature highly entity and fact-specific and feedback on the draft example confirms it would be difficult to develop examples that are generic and relevant enough to apply to a large number of entities across multiple jurisdictions. Any example would, by its nature, be limited in terms of the facts and circumstances it can illustrate. Adding further complexity to an example could lead to further

questions, application challenges and inappropriate analogies when entities have fact patterns and circumstances that differ from those illustrated within the example.

31. Consequently, we think the cost of developing examples outweigh the benefits and recommend not including any illustrative example.

Clarifying the meaning of an asset's current potential

32. We acknowledge continued requests (see paragraph 28) to explain more clearly the meaning of current potential which is similar to feedback we considered in the [July agenda paper](#) (see paragraph 9(c) of that paper).
33. We developed our draft examples to try and help stakeholders better understand and apply the proposed requirements (including the meaning of an asset's current potential). However, feedback suggests any example we develop could confuse, rather than further clarify the meaning of an asset's current potential. While we will consider drafting suggestions when finalising the amendments, in our view, the highly entity and fact-specific nature of the assessment of an asset's current potential makes it difficult to provide further clarification.
34. Notwithstanding the concerns raised, we continue to think the benefits of finalising the proposed amendment would outweigh the costs. In particular, as paragraph 10(a)–(b) of the [July agenda paper](#) notes:

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(a) the existing requirements often require management to apply judgement 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. Feedback when developing the proposals and in response to the Exposure Draft (see paragraph 9(a)) confirmed that making this determination (and subsequent adjustments to

the most recent internal cash flow projections) can be arbitrary, resource consuming and complex.

(b) we acknowledge there could be judgement in determining which cash flows reflect [an asset's current potential]. Nonetheless, the proposal would align the cash flows an entity would be required to use for determining VIU more closely with management's budgets and forecasts, thereby requiring less judgement than the existing requirements...

Staff recommendations

35. We recommend that the IASB retains the proposal to remove from IAS 36 the requirement to exclude restructuring and enhancement cash flows when calculating VIU of an asset or a CGU (see paragraphs 7–41 of the [July agenda paper](#)).
36. We recommend the IASB do no further work on other suggestions made by respondents in relation to this proposal, comprising:
- (a) adding an illustrative example (see paragraphs 29–34);
 - (b) including additional safeguards or constraints (see paragraph 13);
 - (c) adding disclosure requirements (see paragraph 13);
 - (d) clarifying the interaction with IAS 37 (see paragraph 13); or
 - (e) clarifying the remaining differences between VIU and FVLCD or reconsidering whether to maintain both methods (see paragraph 13).

Question for the IASB

Does the IASB agree with our recommendations in paragraphs 35–36?

Appendix A—Draft example

Background

- A1. At the consultative group meetings, we presented the following draft example to illustrate the application of proposed paragraph 44A(b) of IAS 36.

Example: Background

- A2. At the end of 20X1, Entity G tests a production facility for impairment. The facility is a cash-generating unit (CGU).
- A3. The facility consists of two sections:
- (a) Section A, which is currently operational and generating cash flows; and
 - (b) Section B, which is an unused warehouse with potential to be developed to extend the facility's existing production capacity.
- A4. 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 a budget which includes the cash flows from this development plan. Section B has the necessary zoning, operational and regulatory permits needed for the development.
- A5. Management's approved budget includes estimates of:
- (a) future cash inflows and outflows from the continued operation of Section A;
 - (b) future cash outflows required to develop Section B (this work is expected to be completed by 20X3);
 - (c) future cash inflows and outflows from operating Section B after the planned completion of the development work in 20X3.
- A6. The forecast cash inflows and outflows included in the approved budget are reasonable and supportable.
- A7. 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 Entity G 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

- A8. Proposed paragraph 44A(b) 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.

Development of Section B

- A9. Applying proposed paragraph 44A(b), management assesses that:
- (a) the production facility has the current potential to be restructured, improved or enhanced through the development of Section B because:
 - (i) Entity G already owns Section B;
 - (ii) Entity G has the necessary zoning, operational and regulatory permits needed for the development; and
 - (iii) the development is financially feasible.
 - (b) 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 VIU, management must apply paragraph 33(c) of IAS 36 when estimating any cash flow projections beyond the period covered by the approved budget.
- A10. Consequently, management includes the cash flows from the planned development of Section B in calculating VIU of the production facility. The VIU calculation includes:
- (a) cash inflows and outflows from the continued operation of Section A;
 - (b) cash outflows from the planned development of Section B; and

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- (c) cash inflows and outflows from operating Section B after development work is completed in 20X3.

Acquisition of adjacent piece of land

- A11. 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:
 - (a) Entity G has not acquired the adjacent piece of land;
 - (b) Entity G does not have the necessary zoning, operational and regulatory permits needed for the acquisition and subsequent development; and
 - (c) management has not assessed whether the acquisition and subsequent development is financially feasible.
- A12. Consequently, management does not include any future cash flows from the planned acquisition and development of the adjacent land in calculating the production facility's VIU.

Appendix B—Feedback on removing the requirement

- B1. As paragraph 22 notes, although we asked the consultative bodies about developing an illustrative example, a few members provided other feedback on the proposal to remove the requirement to exclude restructuring and enhancement cash flows. In particular:
- (a) a few members disagreed with the proposal to include restructuring and enhancement cash flows in VIU, expressing concern that including these cash flows would delay impairment recognition and would be inconsistent with the concept of VIU and the project's objective. In contrast, a few other members explicitly supported the proposal, saying including these cash flows better reflects management intention, prevents future impairment reversals and better aligns the calculation of FVLCD and VIU.
 - (b) one ASAF member suggested explaining any remaining differences between VIU and FVLCD in the Basis for Conclusions to any final amendments.
- B2. A few members say there needs to be additional boundaries or guardrails. One investor member said from an investor perspective, the change could result in financial statements becoming more complex.
- B3. A few members suggest expanding the example to illustrate criteria, indicators or factors that could help an entity assess whether an asset has current potential. For example, one member suggested including indicators such as:
- (a) level of management that is committed to the plan;
 - (b) whether the plan is included in approved budgets;
 - (c) whether substantive third-party approvals are pending;
 - (d) whether the restructuring or enhancement is distinct from the existing asset;
and
 - (c) the effort required to complete the integration.