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Recoverable Amount Disclosures for Non-Financial Assets

Proposed Amendments to IAS 36

Comments to be received by 19 March 2013

IFRS®

Recoverable Amount Disclosures for Non-Financial Assets

(Proposed Amendments to IAS 36)

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Exposure Draft ED/2013/1 *Recoverable Amount Disclosures for Non-Financial Assets* (Proposed Amendments to IAS 36) is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form as amendments to Standards. Comments on the Exposure Draft, the Basis for Conclusions and the Illustrative Examples should be submitted in writing so as to be received by **19 March 2013**. Respondents are asked to send their comments electronically to the IASB website (www.ifrs.org), using the 'Comment on a proposal' page.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence.

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Introduction

The International Accounting Standards Board (IASB) has published this Exposure Draft to set out proposed modifications to the disclosures in IAS 36 *Impairment of Assets* for the measurement of the recoverable amount of impaired assets. Those disclosure requirements were introduced by IFRS 13 *Fair Value Measurement*, issued in May 2011.

When developing IFRS 13, the IASB decided to amend IAS 36 to require the disclosure of information about the recoverable amount of impaired assets, particularly if that amount is based on fair value less costs of disposal. However, it has come to the IASB's attention that some of the amendments made to IAS 36 have resulted in the requirement being more broadly applicable than the IASB intended. In particular, the IASB had originally intended that the amendment would require an entity to disclose the recoverable amount of an asset (including goodwill) for which an impairment loss was recognised or reversed during the reporting period. However, instead, an entity is now required to disclose the recoverable amount of each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant when compared to the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. This Exposure Draft proposes amendments to IAS 36 that would better represent the IASB's intention for those disclosure requirements.

In addition, one of the amendments proposed in this Exposure Draft overlaps with an amendment to IAS 36 that had been proposed by the Exposure Draft *Annual Improvements to IFRSs 2010–2012 Cycle* published in May 2012. That Exposure Draft proposed an amendment that would require an entity to disclose the discount rate that was used in a present value technique in order to determine the recoverable amount of an impaired asset, regardless of whether that recoverable amount was based on fair value less costs of disposal or value in use. That proposal has been incorporated into this Exposure Draft and we are not requesting comments in response to this topic.

Invitation to comment

The IASB invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) comment on the questions as stated;

(b) indicate the specific paragraph(s) to which they relate;

(c) contain a clear rationale; and

(d) describe any alternative that the IASB should consider, if applicable.

The IASB is not requesting comments on matters in IAS 36 that are not addressed in this Exposure Draft. Moreover, the IASB is not requesting comments on the proposed amendment to require an entity to disclose the discount rate used in a present value technique, because this topic was already subject to public comments during the *Annual Improvements to IFRSs 2010–2012 Cycle*. The IASB will consider the comments received on the *Annual Improvements* Exposure Draft as it finalises the proposals in this Exposure Draft.

The IASB will consider all comments received in writing by **19 March 2013**. In considering the comments, the IASB will base its conclusions on the merits of the arguments for and against each alternative, not on the number of responses supporting each one.

Questions for respondents

Question 1—Disclosures of recoverable amount
The IASB proposes to remove the requirement in paragraph 134(c) to disclose the recoverable amount of 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 when compared to the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. In addition, the IASB proposes to amend paragraph 130 to require an entity to disclose the recoverable amount of an individual asset (including goodwill) or a cash-generating unit for which the entity has recognised or reversed an impairment loss during the reporting period. Do you agree with the proposed amendments? If not, why and what alternative do you propose?

Question 2—Disclosures of the measurement of fair value less costs of disposal

The IASB also proposes to include in paragraph 130 the requirement to disclose the following information about the fair value less costs of disposal of an individual asset (including goodwill) or a cash-generating unit for which the entity has recognised or reversed an impairment loss during the reporting period:

(a) the valuation technique(s) used to measure fair value less costs of disposal and, if there has been a change in the valuation technique, that change and the reason(s) for making it;

(b) the level of the fair value hierarchy within which the fair value measurement of the asset is categorised in its entirety (without taking into account whether the 'costs of disposal' are observable); and

(c) for fair value measurements that are categorised within Levels 2 and 3 of the fair value hierarchy, the key assumptions used in the measurement.

Do you agree with the proposed amendments? If not, why and what alternative do you propose?

Question 3—Transition provisions

The IASB proposes that the amendments should be applied retrospectively for annual periods beginning on or after 1 January 2014. The IASB also proposes to permit earlier application, but will not require an entity to apply those amendments in periods (including comparative periods) in which the entity does not also apply IFRS 13.

Do you agree with the proposed transition method and effective date? If not, why and what alternative do you propose?

Question 4—Other comments

Do you have any other comments on the proposals?

[Draft] Amendments to IAS 36 *Impairment of Assets*

Paragraphs 130 and 134 are amended and paragraph 140J is added. New text is underlined and deleted text is struck through.

Disclosure

130 An entity shall disclose the following for each impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit:

...

(e) the recoverable amount of the impaired asset and whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs of disposal or its value in use.

(f) if recoverable amount is fair value less costs of disposal, ~~the basis used to measure fair value less costs of disposal (such as whether fair value was measured by reference to a quoted price in an active market for an identical asset).~~ an entity shall disclose the following information:

(i) a description of the valuation technique(s) used to measure fair value less costs of disposal. If there has been a change in valuation technique, an entity shall disclose that change and the reason(s) for making it;

(ii) the level of the fair value hierarchy (see IFRS 13) within which the fair value measurement of the asset is categorised in its entirety (without taking into account whether the 'costs of disposal' are observable); and

(iii) for fair value measurements categorised within Levels 2 and 3 of the fair value hierarchy, each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the asset's (cash-generating unit's) recoverable amount is most sensitive and include the discount rate(s) used in the measurement if fair value less costs of disposal is measured using a present value technique. An entity shall also disclose the discount rate used in the previous measurement (if any).

An entity is not required to provide the disclosures required by IFRS 13.

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:

...

(c) ~~the recoverable amount of the unit (or group of units) and~~ 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).

Transition provisions and effective date

...

140J In [date] 2013 paragraphs 130 and 134 were amended. An entity shall apply those amendments retrospectively for annual periods beginning on or after 1 January 2014. Earlier application is permitted. An entity shall not apply those amendments in periods (including comparative periods) in which it does not also apply IFRS 13.

Approval by the Board of *Recoverable Amount Disclosures for Non-Financial Assets* (Proposed Amendments to IAS 36) published in January 2013

The Exposure Draft *Recoverable Amount Disclosures for Non-Financial Assets* was approved for publication by fourteen members of the International Accounting Standards Board. Ms Tokar abstained because she had only recently been appointed to the Board.

Hans Hoogervorst	Chairman
Ian Mackintosh	Vice-Chairman
Stephen Cooper	
Philippe Danjou	
Martin Edelmann	
Jan Engström	
Patrick Finnegan	
Amaro Luiz de Oliveira Gomes	
Prabhakar Kalavacherla	
Patricia McConnell	
Takatsugu Ochi	
Darrel Scott	
Chungwoo Suh	
Mary Tokar	
Wei-Guo Zhang	

Basis for Conclusions on the Exposure Draft *Recoverable Amount Disclosures for Non-Financial Assets* (Proposed Amendments to IAS 36)

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Changes as a result of IFRS 13 *Fair Value Measurement*

Recoverable Amount Disclosures for Non-Financial Assets

BC1 As a consequence of issuing IFRS 13 *Fair Value Measurement*, the IASB modified some of the disclosure requirements in IAS 36 *Impairment of Assets* for measuring the recoverable amount of impaired assets. Those amendments resulted from the IASB's decision to require additional disclosures about the measurement of the recoverable amount of impaired assets, particularly when the recoverable amount was based on fair value less costs of disposal. The IASB intended to require information about how such fair values were measured, but also wanted to retain a balance between the disclosures about fair value less costs of disposal and the disclosures about value in use.

BC2 After issuing IFRS 13, the IASB was made aware that one of the amendments that Standard made to IAS 36 resulted in the disclosure requirements being more broadly applicable than the IASB had intended. That amendment required the disclosure of the recoverable amount of any cash-generating units with a significant carrying amount of goodwill or intangible assets with indefinite useful lives. However, the IASB's intention was to require only the disclosure of the recoverable amount of assets, including goodwill, for which there was an impairment loss recognised or reversed during the reporting period.

BC3 Consequently, the IASB proposes to amend paragraphs 130 and 134 to make clear the IASB's intention that the requirement stipulates the disclosure of the recoverable amount of impaired assets, including goodwill, only. The IASB also proposes to amend paragraph 130 to require information about the fair value measurement when the recoverable amount is based on fair value less costs of disposal, consistently with the disclosure requirements for impaired assets in US GAAP. The IASB considered whether there should be consistency between the wording of the disclosure requirements in IAS 36 (which uses the term 'assumptions') with the measurement requirements in IFRS 13 (which uses the term 'inputs'). The IASB concluded that it is unlikely that those terms could have different meanings because IFRS 13 defines 'inputs' as "the **assumptions** that market participants would use when pricing the asset or liability..." [emphasis added]. In addition, the IASB wanted to make it clear that the proposed amendment does not change the meaning of the information that is required to be disclosed in accordance with IAS 36. Furthermore, the IASB proposes to remove the term 'material' from paragraph 130. The IASB concluded that it is unnecessary to state explicitly that the disclosure relates to a material impairment loss recognised or reversed during the period because all IFRSs are governed by the concept of materiality as described in IAS 1 *Presentation* *of Financial Statements* (see in particular paragraph 31 of IAS 1) and in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

BC4 The proposed amendments overlap with an amendment to paragraph 130(f) of IAS 36 that was proposed in the Exposure Draft *Annual Improvements to IFRSs 2010–2012 Cycle* (ED/2012/1) published in May 2012. The proposal in that Exposure Draft was intended to harmonise the disclosure requirements for value in use and fair value less costs of disposal by adding to paragraph 130(f) the requirement to disclose the discount rate(s) that are used in the current and previous measurements, if any, when the fair value less costs of disposal is measured using a present value technique. Sixty-four respondents commented on that proposal. Nearly all of those respondents supported that proposed amendment.

BC5 When discussing whether to add paragraph 130(f)(iii) to IAS 36, the IASB considered whether the discount rate that is used in a present value technique would be a 'key assumption' as described in that proposed new paragraph. Although the IASB concluded that it would be unlikely that an entity could consider the discount rate not to be a key assumption, it wanted to ensure that an entity would always disclose the discount rate if fair value less costs of disposal is based on a present value technique. Requiring that disclosure would also align the disclosures about fair value less costs of disposal with those about value in use, which require disclosure of the discount rate used. Consequently, the IASB proposes to require an entity to explicitly disclose the discount rate, in addition to the other key assumptions used in the measurement of fair value less costs of disposal. As a result of that decision, the IASB decided not to proceed with the amendment to IAS 36 as proposed in ED/2012/1, but to instead incorporate it into the proposed amendments in this Exposure Draft.

BC6 The IASB proposes to require an entity to apply the amendments retrospectively. The IASB also proposes to permit earlier application of the amendments. However, if an entity applies the amendments early, it is not required to provide comparative information for the prior period if it is not also providing comparative information in accordance with IFRS 13. In the IASB's view, the result of applying the proposed amendments should be the same as if the entity applied them when it initially applied IFRS 13.

[Draft] Amendments to the Illustrative Examples of IAS 36 *Impairment of Assets*

Example 10 is added.

Example 10 Disclosures about fair value less costs of disposal

The purpose of this example is to illustrate the disclosures required by paragraphs 130(b) and 130(f)(ii) of IAS 36.

IE90 If the recoverable amount of an individual asset, including goodwill, or a cash-generating unit for which an impairment loss is recognised, or reversed during the reporting period, is fair value less costs of disposal, IAS 36 requires an entity to disclose the level of the fair value hierarchy within which the fair value measurement of the asset is categorised in its entirety (without taking into account whether the 'costs of disposal' are observable). An entity might disclose the following information to comply with paragraphs 130(b) (which requires disclosure of the amount of an impairment loss or reversal) and 130(f)(ii) of the IAS 36:

(CU in millions)		Recoverable amount (based on fair value less costs of disposal) at the end of the reporting period using			Impairment recognised during the period	
Description	31/12/X9	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	(Losses)	Reversals
Land[(a)]	75			75	(25)	0
Goodwill[(b)]	30			30	(35)	n/a

(a) In accordance with IAS 36, land with a carrying amount of CU100 million has been written down to its fair value less costs of disposal of CU75 million, resulting in an impairment loss of CU25 million, which was included in other expenses in profit or loss for the period.

(b) In accordance with IAS 36, goodwill with a carrying amount of CU65 million has been written down to its implied fair value less costs of disposal of CU30 million, resulting in an impairment loss of CU35 million, which was included in other expenses in profit or loss for the period.