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RECOVERABLE AMOUNT DISCLOSURES FOR NON-FINANCIAL ASSETS

Background

On 18 January 2013 the International Accounting Standards Board (IASB) published Exposure Draft *ED/2013/1 Recoverable Amount Disclosures for Non-financial Assets* which sets out proposed amendments to IAS 36 *Impairment of Assets*. On 21 January 2013 the HKICPA issued invitation to comment on this ED.

The disclosure requirements of IAS 36 were previously amended by the issue of IFRS 13 *Fair Value Measurement*, in May 2011. The IASB has since noted that the amendments were wider than the original intention, which was for disclosure of the recoverable amount of an asset for which impairment was recorded or reversed during the reporting period. Instead, the amendments had resulted in a requirement for disclosure of the recoverable amount of a cash generating unit (CGU) where the amounts of goodwill or intangible assets with an indefinite useful life allocated to that CGU are significant in comparison with the entity's total goodwill and intangible assets with an indefinite useful life.

The proposed amendments in ED/2013/1 would result in two key changes being made to disclosures relating to the impairment of non-financial assets, being:

1. To require the disclosure of the recoverable amount of an asset (or CGU) only in periods in which impairment has been recorded or reversed in respect of that asset (or CGU)
2. To expand and clarify the disclosure requirements when an assets (CGUs) recoverable amount has been determined on the basis of fair value less disposal.

The proposals set out above would align the disclosures required for the recoverable amount of an asset (or CGU) when this has been determined on the basis of fair value less costs of disposal with those required where the recoverable amount has been determined on the basis of value in use. They would also align the IFRS disclosure requirements with US GAAP.

The IASB's Exposure Draft ED/2012/1 *Annual Improvements to IFRSs*, issued in May 2012, included a proposal to require disclosure of the discount rate applied to cash flows when determining an assets (CGUs) recoverable amount on the basis of value in use. This proposal is not repeated in ED 2013/1, but all of these changes to IAS 36 will be made in one overall amendment.

The proposed effective date for the amendments, if finalised, is annual periods beginning on or after 1 January 2014. The amendments would be required to be applied retrospectively, with early adoption being permitted.

The comment period in Hong Kong will end on 19 February 2013. Alternatively you may forward your comments to the IASB by 19 March 2013.

STATUS
Exposure draft

EFFECTIVE DATE
To be confirmed

ACCOUNTING IMPACT
Changes to the disclosure requirements for impairment

Proposed amendments

Disclosure – recoverable amount of an asset (or CGU)

IAS 36 currently requires that the recoverable amount of an asset (or CGU) is disclosed, irrespective of whether an impairment has been recorded or reversed in respect of that asset (or CGU) during the period.

Under the proposed amendments, IAS 36.130(e) would instead require that disclosure of the recoverable amount of an asset (or CGU) would only be required in periods in which impairment has been recorded or reversed in respect of that asset (or CGU).

Clarification of disclosure requirements – fair value less costs of disposal

An exemption from a requirement to provide disclosures in accordance with IFRS 13 *Fair Value Measurement* would be retained. However, the proposed amendments to IAS 36.130(f) would require an entity to make disclosures that are consistent with those required for an asset (or CGU) where the recoverable amount has been determined on the basis of value in use. They would also align the IFRS disclosure requirements with US GAAP.

The amended disclosure requirements of IAS 36.130(f) would require:

(i) A description of the valuation technique(s) used to measure fair value less costs of disposal. If there had been a change in valuation technique, disclosure of that change would be required, together with 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)

(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 (or CGU'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 would also be required to disclose the discount rate used in the previous measurement (if any).

The discount rate has been included explicitly in the proposals as, although the IASB thought that it was unlikely that this would not be considered to be a key assumption, it wanted to ensure that this information was always disclosed.

The exposure draft includes an illustrative example of the presentation of the information required in point (ii) above. This illustrative example has been replicated on the following page. Note that this illustrates only the disclosures that would be required by IAS 36.130(b) and IAS 36.130(f)(ii).

(Reproduced from *ED/2013/1 Recoverable Amount Disclosures for Non-financial Assets*)

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.

(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)	-
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.

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