Impairments amended
Understanding changes to IAS 36

On January 1, 2013, the IASB issued IFRS 13, *Fair Value Measurement*, resulting in enhanced fair value measurement and disclosure requirements. In conjunction with the issuance of this new standard, IAS 36, *Impairment of Assets*, was amended to remove fair value guidance from the standard and ensure consistency with IFRS 13's fair value framework. While in some cases the amendments to IAS 36 simply updated terminology (fair value less costs of disposal (FVLCD) vs. fair value less costs to sell), they also include guidance illustrating differences between value in use (VIU) and fair value and introduced several new disclosure requirements.

Differences between VIU and fair value

The IASB added the following guidance to IAS 36 to assist users in understanding differences between fair value and VIU:

53A Fair value differs from value in use. Fair value reflects the assumptions market participants would use when pricing the asset. In contrast, value in use reflects the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors to the extent that they would not be generally available to market participants:

(a) additional value derived from the grouping of assets (such as the creation of a portfolio of investment properties in different locations);

(b) synergies between the asset being measured and other assets;

(c) legal rights or legal restrictions that are specific only to the current owner of the asset; and

(d) tax benefits or tax burdens that are specific to the current owner of the asset.

While we do not believe that the above clarification should change existing practices with respect to cash generating units (CGUs) determined using VIU or FVLCD, it is helpful as a starting point in understanding the differences between the two approaches.

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Amended disclosure requirements for CGUs containing goodwill or indefinite-lived intangible assets (IAS 36 paragraph 134)

The IASB made several amendments to the disclosure requirements of IAS 36 when it issued IFRS 13. Upon further consideration, it was determined that certain of these amendments were drafted such that they would apply more broadly than intended.

Therefore, on May 29, 2013, the IASB issued a limited scope amendment correcting this and introducing additional disclosures about fair value measurements when there has been an impairment or a reversal of an impairment. The original amendment required the disclosure of the recoverable amount of a unit or group of units (both for VIU and FVLCD) containing goodwill or indefinite lived intangible assets (regardless of whether an impairment had been recognized or reversed) in addition to other fair value information.

The May 29, 2013 limited scope amendment issued by the IASB further amended IAS 36:

- to remove the requirement to disclose recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment;
- to require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognized or reversed; and
- to require detailed disclosure of how the FVLCD has been measured when an impairment loss has been recognized or reversed, including the level of the fair value hierarchy for which the fair value measurement is categorized.

New disclosure requirements for assets or CGUs which do or do not comprise or contain goodwill or indefinite lived intangible assets (IAS 36 paragraph 130)

The limited scope amendment resulted in several disclosure amendments to paragraph 130 of IAS 36. Before the limited scope amendment, the standard simply required an entity to disclose the basis used to determine FVLCD for an asset or CGU. The limited scope amendments to paragraph 130(f) of IAS 36 added additional disclosure requirements for assets or CGUs with material impairments or reversals of impairments, regardless of whether the asset or CGU contains goodwill or indefinite lived intangible assets (please see Appendix A for the detailed disclosure requirement).

Please see the Appendix for a complete summary of the new disclosure requirements of IAS 36 as a result of the original amendment and the subsequent limited scope amendment.

Effective date

Financial statement preparers should be careful when considering the effective date of the IAS 36 amendments. The original amendments, including enhanced fair value and disclosure guidance, are effective when an entity applies IFRS 13 (for years beginning on January 1, 2013). The subsequent limited scope amendments as illustrated below are effective for annual periods beginning on or after January 1, 2014 (retrospectively). Early adoption of the limited scope amendments is available and entities may consider adopting these amendments in 2013 to avoid disclosure of the recoverable amount of a unit or group of units for which there has been no impairment or reversal of impairment. Furthermore, if an impairment is recognized in a CGU without goodwill or indefinite lived intangible assets during 2013, and the expanded disclosure is not provided for that impairment, it will need to be provided in 2014 when the limited amendments are adopted retrospectively.

We hope you find this Newsletter helpful. If you have any questions, please do not hesitate getting in touch with your local PwC representative or office.

Appendix

The table below summarizes the amended disclosure requirements of the original IAS amendment and the limited scope IAS 36 amendment.

Original IAS 36 disclosure amendments	Revised limited scope amendments
130 An entity shall disclose the following for each material impairment loss recognized or reversed during the period for an individual asset, including goodwill, or a cash-generating unit: (a) (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 is not required to provide the disclosures required by IFRS 13.	130 An entity shall disclose the following for an individual asset (including goodwill) or a cash-generating unit, for which an ~~each material~~ impairment loss has been recognized or reversed during the period ~~for an individual asset, including goodwill, or a cash-generating unit~~: (a) ... (e) the recoverable amount of the asset (cash-generating unit) 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 the 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 is not required to provide the disclosures required by IFRS 13. The entity shall disclose the following information: (i) the level of the fair value hierarchy (see IFRS 13) within which the fair value measurement of the asset (cash-generating unit) is categorized in its entirety (without taking into account whether the 'costs of disposal' are observable); (ii) for fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, 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, the entity shall disclose that change and the reason(s) for making it; and (iii) for fair value measurements categorized within Level 2 and Level 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. The entity shall also disclose the discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique. (g) ...

Original IAS 36 disclosure amendments	Revised limited scope amendments
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:	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:
(a)	(a)
(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).	(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 (i.e. value in use or fair value less costs of disposal).
(d)	(d) …
(e) if the unit's (group of units') recoverable amount is based on fair value less costs of disposal, the valuation technique(s) used to measure fair value less costs of disposal. An entity is not required to provide the disclosures required by IFRS 13. If fair value less costs of disposal is not measured using a quoted price for an identical unit (group of units), an entity shall disclose the following information:	
(i) …	
(iiA) the level of the fair value hierarchy (see IFRS 13) within which the fair value measurement is <u>categorized</u> in its entirety (without giving regard to the <u>observability</u> of 'costs of disposal').	
(iiB) if there has been a change in valuation technique, the change and the reason(s) for making it.	
If fair value less costs of disposal is measured using discounted cash flow projections, an entity shall disclose the following information:	
(iii) …	
(f) …	