

**DRAFT ENDORSEMENT ADVICE AND EFFECTS STUDY REPORT ON
RECOVERABLE AMOUNT DISCLOSURES FOR NON-FINANCIAL ASSETS -
AMENDMENTS TO IAS 36**

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS

Comments should be sent to commentletters@efrag.org by 11 July 2013

EFRAG has been asked by the European Commission to provide it with advice and supporting material on the *Recoverable Amount Disclosures for Non-Financial Assets - Amendments to IAS 36* ('the Amendments'). In order to do that, EFRAG has been carrying out an assessment of the Amendments against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from its implementation in the European Union (the EU) and European Economic Area.

A summary of the Amendments is set out in Appendix 1.

Before finalising its two assessments, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

EFRAG initial assessments summarised in this questionnaire will be amended to reflect EFRAG's decisions on Appendix 2 and 3.

1 Please provide the following details about yourself:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

Fi nanci al Report i ng Counci l

- (b) Are you a:

Preparer User Other (please specify)

Nat i onal St andar d Set t er

- (c) Please provide a short description of your activity:

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Nat i o n a l S t a n d a r d S e t t e r

(d) Country where you are located:

U n i t e d K i n g d o m

(e) Contact details including e-mail address:

M e i A s h e l f o r d

m a s h e l f o r d @ r c . o r g . u k

2 EFRAG’s initial assessment of the Amendments is that they meet the technical criteria for endorsement. In other words, they are not contrary to the principle of true and fair view and they meet the criteria of understandability, relevance, reliability and comparability. EFRAG’s reasoning is set out in Appendix 2.

(a) Do you agree with this assessment?

Yes

No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG’s endorsement advice.

(b) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of the Amendments? If there are, what are those issues and why do you believe they are relevant to the evaluation?

N o n e

3 EFRAG is also assessing the costs that are likely to arise for preparers and for users on implementation of the Amendments in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

4 The results of the initial assessment of costs are set out in paragraphs 7 and 10 of Appendix 3. To summarise, EFRAG’s initial assessment is that the Amendments are likely to result:

(a) in some initial one-off costs for preparers related to their implementation and in some ongoing costs of complying with the them that are insignificant; and

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- (b) in insignificant costs incurred by users to incorporate the new requirements in their analysis.

Do you agree with this assessment?

Yes No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

- 5 In addition, EFRAG is assessing the benefits that are likely to be derived from the Amendments. The results of the initial assessment of benefits are set out in paragraph 14 of Appendix 3. To summarise, EFRAG’s initial assessment is that users and preparers are likely to benefit from the Amendments, as the information resulting from them will increase comparability; furthermore the Amendments are likely to reduce the costs for preparers in preparing and users in analysing the required disclosures.

Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice?

The final sentence that states that the amendments are likely to reduce costs for preparers and users contradicts EFRAG’s assessment that there will be some (although insignificant) costs incurred as a result of the Amendments. Suggest that paragraph 14 of Appendix 3 is redrafted to remove the final sentence.

- 6 EFRAG’s initial assessment is that the benefits to be derived from implementing the Amendments in the EU as described in paragraph 4 above are likely to outweigh the costs involved as described in paragraph 3 above.

Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice?

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- 7 EFRAG is not aware of any other factors that should be taken into account in reaching a decision as to what endorsement advice it should give the European Commission on the Amendments.

Do you agree that there are no other factors?

Yes

No

If you do not agree, please provide your arguments and indicate how this should affect EFRAG’s endorsement advice?

APPENDIX 1 A SUMMARY OF THE AMENDMENTS

Background

- 1 When the IASB issued IFRS 13 *Fair Value Measurement*, it decided to amend IAS 36 *Impairment of Assets* to require the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
- 2 The IASB intended to align better the disclosures about fair value less costs of disposal and the disclosures about value in use when present value techniques are used to measure the recoverable amount of impaired assets.

The issue

- 3 After issuing IFRS 13, the IASB learned that the amendments did not accurately reflect its intention and resulted in the disclosure requirements being more broadly applicable than it had intended.
- 4 Indeed, the intention was to require disclosure the recoverable amount of impaired assets only. However, the requirements were capturing also the recoverable amount of cash-generating units for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant when compared to an entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.

What has changed?

- 5 The IASB decided to remove the requirement to disclose the recoverable amount of cash-generating units for which no impairment is recognised. In addition, the IASB introduced a requirement to disclose for an individual asset (including goodwill) or a cash-generating unit for which an impairment loss has been recognised or reversed during the period, and for which the recoverable amount is fair value less costs of disposal, information about the key assumptions, valuation techniques and level of the fair value hierarchy applicable.
- 6 Furthermore, the amendments incorporated an amendment proposed by the Exposure Draft ED/2012/1 *Annual Improvements to IFRSs 2010-2012 Cycle*, published in May 2012, to require an entity to disclose the discount rates that have been used in the current and previous measurements if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using a present value technique. The intention behind this proposal was to harmonise the disclosure requirements for fair value less costs of disposal and value in use by adding the requirement to disclose the discount rates that were used in the current and previous measurements if the recoverable amount of impaired assets, determined on the basis of fair value less costs of disposal, was measured using a present value technique.
- 7 Finally, the Amendments remove the term 'material' as the IASB concluded that it was unnecessary to state explicitly that the disclosure requirements relate to assets (including goodwill) or cash-generating units, for which a *material* impairment loss has been 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* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

When do the amendments become effective?

- 8 The IASB decided that the amendments apply retrospectively for annual period beginning or after 1 January 2014, with earlier application permitted. An entity shall not apply those amendments in periods (including comparative periods) in which it does not also apply IFRS 13.

APPENDIX 2

EFRAG'S TECHNICAL ASSESSMENT OF THE AMENDMENTS AGAINST THE ENDORSEMENT CRITERIA

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on the Amendments.

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity of contributing to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity of advising the European Commission on endorsement of the definitive IFRS in the European Union and European Economic Area.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the technical criteria for the European endorsement, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

Does the accounting that results from the application of the Amendments meet the technical criteria for EU endorsement?

- 1 EFRAG has considered whether the Amendments meet the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002, in other words that the Amendments:
 - (a) are not contrary to the principle of 'true and fair view' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
 - (b) meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

EFRAG also considered, based only on evidence brought to its attention by constituents, whether it would be not conducive to the European public good to adopt the Amendments.

Relevance

- 2 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations.
- 3 EFRAG considered whether the Amendments would result in the provision of relevant information – in other words, information that has predictive value, confirmatory value or both – or whether it would result in the omission of relevant information.
- 4 The Amendments to IAS 36 correct an unintended consequence that would have resulted into a requirement to disclose financial information not relevant to users. In EFRAG's view, relevance is improved by the removal of unnecessary disclosures

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that clutter the financial statements. Therefore, EFRAG believes that the Amendments increase the relevance of financial information.

- 5 In addition, these Amendments continue to require disclosures on the recoverable amount and the key assumptions used to assess it only when impairment losses are either recognised or reversed. EFRAG believes that in this respect the relevance of financial information is also improved.
- 6 Furthermore, the Amendments introduce additional disclosure requirements that are aligned with IFRS 13. EFRAG believes that these additional disclosures enhance the relevance of financial information.
- 7 Therefore, EFRAG's overall initial assessment is that the Amendments satisfy the relevance criterion.

Reliability

- 8 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.
- 9 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.
- 10 The IASB decided to amend paragraphs 130 and 134 of IAS 36 to reach a balance between the disclosures about fair value less costs of disposal and the disclosures about value in use when present value techniques are used to measure the recoverable amount of impaired assets. EFRAG believes that the Amendments do not have any impact on the measurement of impairments under IAS 36 and does not raise any new issue regarding the reliability of the required disclosures.
- 11 In EFRAG's view, the Amendments raise no new issues concerning reliability of information.

Comparability

- 12 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.
- 13 EFRAG has considered whether the Amendments result in transactions that are:
 - (a) economically similar being accounted for differently; or
 - (b) transactions that are economically different being accounted for as if they are similar.
- 14 The Amendments prescribe a consistent set of disclosures on the recoverable amount of impaired assets and additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount was based on fair value less costs of disposal. EFRAG believes that providing a similar set of disclosures in all circumstances when an impairment loss occurs enhances the comparability of financial information.

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- 15 The Amendments harmonise the disclosure requirements for fair value less costs of disposal and value in use by adding to paragraph 130(f) the requirement to disclose the discount rates that were used in the current and previous measurements if the recoverable amount of impaired assets, determined on the basis of fair value less costs of disposal, was measured using a present value technique. In EFRAG's view, requiring consistent disclosures on discount rates provide users of financial statement with information that is more comparable.
- 16 Therefore, EFRAG's overall initial assessment is that the Amendments satisfy the comparability criterion.

Understandability

- 17 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence.
- 18 Although there are a number of aspects to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability.
- 19 As a result, EFRAG believes that the main additional issue it needs to consider, in assessing whether the information resulting from the application of the Amendments is understandable, is whether that information will be unduly complex.
- 20 In EFRAG's view, the Amendments do not introduce any new complexities that may impair understandability. Therefore, EFRAG's overall initial assessment is that the Amendments satisfy the understandability criterion in all material respects.

True and Fair

- 21 EFRAG's initial assessment is that the information resulting from the application of the Amendments would not be contrary to the true and fair view principle.

European public good

- 22 EFRAG is not aware of any reason to believe that it is not conducive to the European public good to adopt Amendments.

Conclusion

- 23 For the reasons set out above, EFRAG's initial assessment is that the Amendments satisfy the technical criteria for EU endorsement and EFRAG should therefore recommend their endorsement.

APPENDIX 3

EFRAG's EVALUATION OF THE COSTS AND BENEFITS OF THE AMENDMENTS

- 1 EFRAG has also considered whether, and if so to what extent, implementing the Amendments in the EU might result in incremental costs for preparers and/or users, and whether those costs are likely to be exceeded by the benefits to be derived from their adoption.

Cost for preparers

- 2 EFRAG has carried out an initial assessment both of the one-off and ongoing cost implications for preparers resulting from the Amendments.
- 3 EFRAG believes that the most significant changes resulting from the Amendments, which is expected to affect the costs for preparers, are the requirements:
 - (a) to provide the fair value disclosures consistent with those in IFRS 13 on the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal – which are not currently provided in the financial statements; and
 - (b) to continue to provide disclosures in compliance with the requirements in paragraph 134(e).
- 4 However, EFRAG notes that this was the original intention of the IASB when IFRS 13 was published.
- 5 In addition, EFRAG believes that all required disclosures refer to information and data that entities already have to perform the impairment test.
- 6 Therefore, EFRAG believes that preparers may initially have some one-off costs in reading and applying the requirements in the Amendments and on-going costs to apply them that are likely to be not significant.
- 7 Overall, EFRAG's initial assessment is therefore that the Amendments are likely to result in some initial one-off costs for preparers related to their implementation and in some ongoing costs of complying with them that are insignificant.

Costs for users

- 8 EFRAG has carried out an initial assessment of the cost implications for users resulting from the Amendments.
- 9 EFRAG believes that the Amendments will result in some initial cost to users to incorporate the output of the new requirement in their analysis.
- 10 Overall, EFRAG's initial assessment is that the Amendments are likely to result in insignificant costs incurred by users to incorporate the new requirements in their analysis.

Benefits for preparers and users

- 11 EFRAG has carried out an initial assessment of the benefits for users and preparers resulting from the Amendments

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- 12 EFRAG's assessment is that the Amendments will help preparers in applying and improving the disclosures about fair value less costs of disposal and disclosures about value in use when present value techniques are used to measure the recoverable amount of impaired assets.
- 13 Regarding the benefits for users, EFRAG believes that the Amendments will allow users to assess better the disclosures on impairment losses.
- 14 Overall, EFRAG's initial assessment is that users and preparers are likely to benefit from the Amendments, as the information resulting from them will increase comparability; furthermore the Amendments are likely to reduce the costs for preparers in preparing and users in analysing the required disclosures.

Conclusion

- 15 EFRAG's overall initial assessment is that the overall benefits for preparers and users to be derived from implementing the Amendments are likely to outweigh costs involved.