

Jonathan Faull  
Director General  
European Commission  
Directorate General for the Internal Market  
1049 Brussels

15 July 2013

Dear Mr Faull

**Adoption of the Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets**

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the Amendments to IAS 36 – *Recoverable Amount Disclosures for Non-Financial Assets* (the 'Amendments'), which were issued by the IASB on 18 May 2013. It was issued as an Exposure Draft in January 2013 and EFRAG commented on that draft.

The objective of Amendments to IAS 36 *Impairment of Assets* is to correct an unintended consequence that would have resulted into a requirement to disclose financial information on the recoverable amount of cash-generating units for which no impairment is recognised.

The Amendments become effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted. The Amendments should be applied only in periods in which IFRS 13 *Fair Value Measurement* is also applied.

EFRAG has carried out an evaluation of the Amendments. As part of that process, EFRAG issued its initial assessment for public comment and, when finalising its advice and the content of this letter, it took the comments received in response into account. EFRAG's evaluation is based on input from standard setters, market participants and other interested parties, and its discussions of technical matters are open to the public.

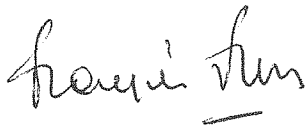
EFRAG supports the Amendments and has concluded that they meet the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in that they:

- 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
- 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.

For the reasons given above, EFRAG is not aware of any reason to believe that it is not conducive to the European public good to adopt the Amendments and, accordingly, EFRAG recommends their adoption. EFRAG's reasoning is explained in the attached 'Appendix - Basis for Conclusions'.

On behalf of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Françoise Flores', with a horizontal line underneath the name.

Françoise Flores  
**EFRAG Chairman**

## APPENDIX BASIS FOR CONCLUSIONS

*This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on the Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets (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

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 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.

- 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 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 assessment is that the Amendments satisfy the understandability criterion in all material respects.

*True and Fair*

- 21 EFRAG's 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 assessment is that the Amendments satisfy the technical criteria for EU endorsement and EFRAG should therefore recommend their endorsement.