

The costs and benefits of implementing the *Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets*

Introduction

- 1 Following discussions between the various parties involved in the EU endorsement process, the European Commission decided in 2007 that more extensive information than hitherto needs to be gathered on the costs and benefits of all new or revised Standards and Interpretations as part of the endorsement process. It has further been agreed that EFRAG will gather that information in the case of the *Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets* (the ‘Amendments’).
- 2 EFRAG first considered how extensive the work would need to be. For some Standards or Interpretations, it might be necessary to carry out some fairly extensive work in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of the Amendments, EFRAG’s view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work. The results of the consultations that EFRAG has carried out seem to confirm this. Therefore, as explained more fully in the main sections of this report, the approach that EFRAG has adopted has been to carry out detailed initial assessments of the likely costs and benefits of implementing the Amendments in the EU, to consult on the results of those initial assessments, and to finalise those assessments in the light of the comments received.

EFRAG’s endorsement advice

- 3 EFRAG also carries out a technical assessment of all new and revised Standards and Interpretations issued by the IASB against the so-called endorsement criteria and provides the results of those technical assessments to the European Commission in the form of recommendations as to whether or not the Standard or Interpretation assessed should be endorsed for use in the EU. As part of those technical assessments, EFRAG gives consideration to the costs and benefits that would arise from implementing the new or revised Standard or Interpretation in the EU. EFRAG has therefore taken the conclusion at the end of this report into account in finalising its endorsement advice.

A SUMMARY OF THE AMENDMENTS

Background

- 4 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.

- 5 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

- 6 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.
- 7 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?

- 8 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.
- 9 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.
- 10 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?

- 11 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.

EFRAG's initial analysis of the costs and benefits of the Amendments

- 12 EFRAG carried out an initial assessment of the costs and benefits expected to arise for preparers and for users from implementing the Amendments, both in year one and in subsequent years. The results of EFRAG's initial assessment can be summarised as follows:
- (a) *Costs* – 1) 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 2) in insignificant costs incurred by users to incorporate the new requirements in their analysis.
 - (b) *Benefits* – 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.
- 13 EFRAG published its initial assessment and supporting analysis on the Amendments on 4 July 2013 and invited comments by 11 July 2013. In response, EFRAG received eight comment letters. Six respondents agreed with EFRAG's assessment of the benefits of implementing the Amendments and the associated costs involved for users and preparers. The other respondents did not comment specifically on EFRAG's initial assessment of the costs and benefits of implementing the Amendments in the EU, but supported EFRAG's recommendation that the Amendments be adopted for use in Europe.

EFRAG's final analysis of the costs and benefits of the Amendments

- 14 Based on its initial analysis and stakeholders' views on that analysis, EFRAG's detailed final analysis of the costs and benefits of the Amendments is presented in the paragraphs below.

Cost for preparers

- 15 EFRAG has carried out an assessment both of the one-off and ongoing cost implications for preparers resulting from the Amendments.
- 16 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).
- 17 However, EFRAG notes that this was the original intention of the IASB when IFRS 13 was published.
- 18 In addition, EFRAG believes that all required disclosures refer to information and data that entities already have to perform the impairment test.

- 19 Therefore, EFRAG believes that preparers may initially have some one-off costs in reading and understanding the requirements in the Amendments and on-going costs to apply them that are likely to be not significant.
- 20 Overall, EFRAG's 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

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

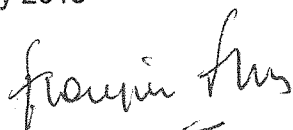
Benefits for preparers and users

- 24 EFRAG has carried out an assessment of the benefits for users and preparers resulting from the Amendments
- 25 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.
- 26 Regarding the benefits for users, EFRAG believes that the Amendments will allow users to assess better the disclosures on impairment losses.
- 27 Overall, EFRAG's 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

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

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