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Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans

IASB ED/2013/1 *Recoverable Amount Disclosures for Non-Financial Assets*

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on the above-named Exposure Draft (ED). In formulating its comments, the AASB considered the views received from Australian constituents. The comment letters received are published on the AASB's website.

The AASB supports in principle each of the ED's proposals.

The AASB's responses to the questions for respondents in the ED are set out in Appendix A. These include:

(a) a comment, in response to Question 2(c), on whether to amend paragraph 130(g) of IAS 36 *Impairment of Assets* for consistency with the additional disclosure proposed for paragraph 130(f)(iii) of IAS 36; and

(b) some suggestions for minor amendments to the wording of IAS 36 proposed in the ED.

If you have any questions regarding this letter, please do not hesitate to contact Jim Paul (jpaul@aasb.gov.au).

Yours sincerely,

K.M. Stevenson

Kevin M. Stevenson
Chairman and CEO

APPENDIX A

AASB's responses to the Questions for Respondents to ED/2013/1

Question 1—Disclosures of recoverable amount

The IASB proposes to remove the requirement in paragraph 134(c) to disclose the recoverable amount of 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 when compared to the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. In addition, the IASB proposes to amend paragraph 130 to require an entity to disclose the recoverable amount of an individual asset (including goodwill) or a cash-generating unit for which the entity has recognised or reversed an impairment loss during the reporting period.

Do you agree with the proposed amendments? If not, why and what alternative do you propose?

The AASB supports the proposed amendments in light of the explanation for them given in paragraphs BC1 – BC2 of the IASB's Basis for Conclusions on ED/2013/1, and because the AASB considers the proposed amendments would obtain a better balance of costs and benefits.

Regarding a drafting matter, the AASB notes that the proposed disclosure of recoverable amount in the proposed new part of paragraph 130(e) of IAS 36 *Impairment of Assets* would apply only to 'impaired assets'. This seems inconsistent with the lead-in of paragraph 130, which applies to "each impairment loss recognised or reversed during the period for an individual asset, including goodwill, *or a cash-generating unit*" (emphasis added). The AASB considers that the disclosure requirement for recoverable amount should apply to all items covered by the lead-in of paragraph 130. Accordingly, and for consistency with the expression used elsewhere in paragraph 130(e) in ED/2013/1, the AASB suggests making this change by adding the following underlined words to proposed paragraph 130(e) of IAS 36:

> "the recoverable amount of the impaired asset <u>(cash-generating unit)</u> and whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs of disposal or its value in use".

Question 2—Disclosures of the measurement of fair value less costs of disposal

The IASB also proposes to include in paragraph 130 the requirement to disclose the following information about the fair value less costs of disposal of an individual asset (including goodwill) or a cash-generating unit for which the entity has recognised or reversed an impairment loss during the reporting period:

(a) the valuation technique(s) used to measure fair value less costs of disposal and, if there has been a change in the valuation technique, that change and the reason(s) for making it; [proposed paragraph 130(f)(i) of IAS 36]

(b) the level of the fair value hierarchy 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); [proposed paragraph 130(f)(ii) of IAS 36] and

(c) for fair value measurements that are categorised within Levels 2 and 3 of the fair value hierarchy, the key assumptions used in the measurement. [proposed paragraph 130(f)(iii) of IAS 36]

Do you agree with the proposed amendments? If not, why and what alternative do you propose?

Question 2(a)

The AASB supports the proposed additional disclosure in paragraph 130(f)(i) of IAS 36, on the condition set out in the next paragraph below, because it would provide useful information for users and, together with the proposed additional disclosure in paragraph 130(f)(iii) of IAS 36, corresponds to most of the disclosure requirements in paragraph 93(d) of IFRS 13 *Fair Value Measurement*.

The AASB considers that disclosure of valuation techniques, and changes therein, should only be required for fair value measurements categorised within Level 2 or[1] Level 3 of the fair value hierarchy in IFRS 13. This is because, consistent with paragraph 93(d) of IFRS 13, fair value measurements categorised within Level 1 of the fair value hierarchy (using a quoted price in an active market for identical assets) do not involve the use of valuation techniques.

Therefore, the AASB suggests amending proposed paragraph 130(f)(i) along the following lines (changes to the ED's wording are marked up):

"(i) <u>for fair value measurements categorised within Level 2 or Level 3 of the fair value hierarchy,</u> a description of the valuation techniques(s) used to measure fair value less costs of disposal. …"

Question 2(b)

The AASB supports the proposed additional disclosure in paragraph 130(f)(ii) of IAS 36 because it would provide useful information for users and corresponds to the disclosure requirement in paragraph 93(b) of IFRS 13.

[1] The AASB notes that paragraph 93(d) of IFRS 13 refers to "fair value measurements categorised within Level 2 *and* Level 3 of the fair value hierarchy" (emphasis added). The "and" makes the meaning of this phrase somewhat ambiguous because it could be read as requiring the measurements to be categorised within both levels of the fair value hierarchy. This would be problematic given paragraph 93(b) refers to "the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety". To improve clarity, the AASB suggests changing "and" to "or" in paragraph 93(d) of IFRS 13 and using "or" in the new words proposed in this submission for paragraph 130(f)(i) of IAS 36 (see marked-up suggested text). Similarly, the AASB suggests changing "and" to "or" in the reference to "Levels 2 and 3" in the first line of proposed paragraph 130(f)(iii) of IAS 36 (by using the phrase "Level 2 or Level 3").

<u>Question 2(c)</u>

The AASB supports the proposed additional disclosure in paragraph 130(f)(iii) of IAS 36 because it would provide useful information for users and, together with the proposed additional disclosure in paragraph 130(f)(i) of IAS 36, corresponds to most of the disclosure requirements in paragraph 93(d) of IFRS 13.

Nevertheless, the AASB considers that this additional disclosure (when the recoverable amount is measured at fair value less costs of disposal) is more extensive than the disclosures required in IAS 36 when recoverable amount is measured at value in use. This is because proposed paragraph 130(f)(iii) would require each key assumption to be disclosed in respect of fair value less costs of disposal, whilst paragraph 130(g) of IAS 36 presently does not require disclosure of key assumptions, except discount rates, in respect of value in use.

In this regard, the AASB observes that paragraph BC1 in the Basis for Conclusions on the ED says the IASB "wanted to retain a balance between the disclosures about fair value less costs of disposal and the disclosures about value in use". The AASB suggests that, in order to retain such a balance if proposed paragraph 130(f)(iii) is added to IAS 36, the IASB should consider whether to require disclosure of each key assumption on which management has based its determination of value in use, in relation to paragraph 130(g) of IAS 36.

In view of the due process steps that might be necessary if the disclosures in paragraph 130(g) of IAS 36 were to be extended, the AASB does not suggest delaying the amendments to IAS 36 proposed by IASB ED/2013/1. Instead, the AASB suggests including proposals to extend the disclosures in paragraph 130(g) of IAS 36 along the lines above in the next set of Annual Improvements.

Question 3—Transition provisions

The IASB proposes that the amendments should be applied retrospectively for annual periods beginning on or after 1 January 2014. The IASB also proposes to permit earlier application, but will not require an entity to apply those amendments in periods (including comparative periods) in which the entity does not also apply IFRS 13.

Do you agree with the proposed transition method and effective date? If not, why and what alternative do you propose?

The AASB supports the proposed transition method and effective date, as the proposed timeframe should provide sufficient lead time for adopting the proposed amendments to IAS 36, while catering for the transition provisions for IFRS 13. The AASB particularly supports permitting early application because it considers the proposed amendments to IAS 36 would improve financial reporting, and therefore the improved information should be available to users as soon as possible.

The AASB also observes that, consistent with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, retrospective application would not be required to the extent that it is impracticable. Therefore, the AASB considers that requiring the proposed amendments to paragraphs 130 and 134 of IAS 36 to be applied retrospectively should not be unduly onerous.

Question 4—Other comments

Do you have any other comments on the proposals?

The AASB has no other comments on the proposals in ED/2013/1.