Exposure Draft 2013/1: Recoverable Amount Disclosures for Non-Financial Assets

Dear Sir or Madam,

MAZARS welcomes the opportunity to comment on the International Accounting Standards Board’s Exposure Draft, Recoverable Amount Disclosures for Non-Financial Assets.

We wish to draw your attention on the following point:

- **proposal to amend paragraph 130 by re-wording the disclosure requirements related to the measurement of fair value less costs of disposal:** we disagree with the proposed amendments as they introduce useless discrepancies between the requirements under paragraph 130(f) and 134(e); as an alternative, we recommend simplifying paragraph 130(f) by introducing a direct reference to paragraph 134(e) (which, in our view, would have the advantage of improving both the general consistency and readability of the standard).

We generally agree with the other proposed amendments. We have however identified some minor concerns that are detailed in the appendix to this letter.

Our answers to the questions raised in the Exposure Draft are shown in the appendix to this letter which summarises our concerns and opinion.
We would be pleased to discuss our comments with you and remain at your disposal should you need further clarification or additional information.

Best regards,

Michel Barbet-Massin

Head of Financial Reporting Technical Support
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 (or a group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (or a 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?

We wish to comment separately on the following items:

- proposal to remove the additional requirement introduced by IFRS 13 Fair Value Measurement in paragraph 134(c),
- proposal to amend paragraph 130 by introducing a new requirement regarding the recoverable amount of impaired assets (or units),

Proposal to remove the additional requirement introduced by IFRS 13 Fair Value Measurement in paragraph 134(c) of IAS 36

We agree with the proposal to remove the additional requirement introduced by IFRS 13 Fair Value Measurement in paragraph 134(c) of IAS 36.

Until IFRS 13 Fair Value Measurement was published, an entity was not required to disclose the recoverable amount of each cash-generating unit (or a group of units) to which significant goodwill or intangible assets with indefinite useful lives had been allocated. Disclosing the amount of “headroom” (i.e. the difference between recoverable value and carrying amount) for such cash-generating units (or a group of units) became mandatory only when there existed a reasonable scenario which could lead to the recognition of an impairment loss (in application of paragraph 134(f) of IAS 36).

With the additional requirement introduced by IFRS 13 Fair Value Measurement in paragraph 134(c) of IAS 36, disclosing the recoverable amount of a cash-generating unit (or a group of units) to which significant goodwill or intangible assets with indefinite useful lives have been allocated is mandatory even when no reasonable scenario exists which could lead to the recognition of an impairment loss.

In our opinion, there is no evidence that such a disclosure would be useful to readers of the financial statements.

Moreover, disclosing the recoverable value of a cash-generating unit (or a group of units) alone does not provide any information to readers of the financial statements on the amount of “headroom” between recoverable value and carrying amount or on the sensitivity of the impairment test.
Proposal to amend paragraph 130 by introducing a new requirement regarding the recoverable amount of impaired assets (or units)

We support the principle of the proposed amendment, which requires an entity to disclose the recoverable amount of an individual asset (including goodwill) or a cash-generating unit for which it has recognised or reversed an impairment loss during the reporting period.

However, we propose to add the following underlined words in order to make it clear that the proposed amendment applies either to an individual asset for which the recoverable value can be determined on a stand-alone basis or to a cash generating unit:

"An entity shall disclose the following for each impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit:

... 
(e) the recoverable amount of the impaired 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."

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;

(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); 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.

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

We do not agree with the proposed amendments.

We believe that, in practice, the application of these amendments will not result in significantly different disclosures from those already required by the existing standard.

However, for a cash-generating unit (or a group of units) to which significant goodwill or intangible assets with indefinite useful lives have been allocated, these new requirements imperfectly overlap those already set out in paragraph 134(e).
Therefore, we recommend considering the following alternative proposal:

- simplify paragraph 130(f) by introducing a direct reference to paragraph 134(e):
  
  "130 An entity shall disclose the following for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit:

  ...

  (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. the entity is also required to provide the disclosures set out in paragraph 134(e)."

- in addition, some minor modifications in paragraph 134(e) would be required:

  "134 An entity shall disclose the information required by (a)–(f) for each cash-generating unit (or a group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (or a group of units) is significant in comparison with the entity’s total carrying amount of goodwill or intangible assets with indefinite useful lives:

  ...

  (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 the fair value measurement used in fair value less costs of disposal is not categorized as level 1 (see IFRS 13) a quoted price for an identical unit (group of units), an entity shall disclose the following information:

  (i) each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the unit’s (group of units’) recoverable amount is most sensitive.

  (ii) a description of management’s approach to determining the value (or values) assigned to each key assumption, whether those values reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.

  (iiA) the level of the fair value hierarchy (see IFRS 13) within which the fair value measurement is categorised in its entirety (without giving regard to the observability 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) the period over which management has projected cash flows.

  (iv) the growth rate used to extrapolate cash flow projections.

  (v) the discount rate(s) applied to the cash flow projections."

5
We believe that this alternative proposal would have the advantage of improving both the general consistency and readability of the standard (while maintaining the same level of detail in disclosure requirements as in the Exposure Draft).

**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?

We agree with the proposed transition method and effective date.

**Question 4 – Other comments**

Do you have any other comments on the proposals?

No.