EFRAG Secretariat: F. Poli, J. Waldier,
I. Chatzieffraimidou

[EFRAG SECRETARIAT PAPER FOR PUBLIC EFRAG TEG MEETING]

EFRAG Research Project Equity Instruments - Impairment and Recycling
Issues Paper

Objective

1 The objective of this paper is to present some initial directions on:

(a) whether a solution for an impairment approach should be developed in relation to all or a sub-set of equity instruments; and

(b) possible alternative approaches to the impairment of equity instruments designated at fair value through other comprehensive income ('FVOCI') under IFRS 9 *Financial Instruments*.

2 This paper does not focus on the mechanics of the potential impairment approaches for equity instruments. Moreover, other issues of impairment, such as reversal or disclosures will be addressed in a future paper.

Current requirements

3 Investments in equity instruments are currently addressed in IAS 39 *Financial Instruments: Recognition and Measurement*. Such investments are generally classified as either held for trading or classified as available for sale ('AFS'). Assets classified in the first group are recognised on the statement of financial position at fair value at each reporting period with changes in fair value recognised in profit or loss.

4 The second group of assets AFS, are recognised on the statement of financial position at fair value at each reporting period. However, changes in fair value are recognised in other comprehensive income ('OCI') except for impairment losses and foreign exchange gains or losses. Upon derecognition, the cumulative gain or loss recognised in OCI is recycled and recognised in profit or loss. For these assets, there is a change in treatment upon adoption of IFRS 9.

5 For AFS instruments that will be accounted for under the normal treatment of IFRS 9, changes in fair value will be recognised directly in profit and loss. For AFS instruments accounted for under the election of IFRS 9, changes in fair value are recognised in OCI and impairment charges and recycling upon derecognition will be disallowed.

Long-term business model and the relevance of recycling

6 In its Endorsement Advice to the European Commission related to IFRS 9, EFRAG noted that the default requirement to measure all equity investments at fair value through profit or loss may not reflect the business model of long-term investors,

including entities undertaking insurance activities and entities in the energy and mining industries. EFRAG observed that if investments are held as a strategic holding or as part of a long-term investment business model, information about fair value changes in profit or loss leads to less relevant information.

7 EFRAG noted the option to measure some equity instruments at FVOCI, but observed that the prohibition of recycling of the disposal gains may be considered as limiting the relevance of the information, especially when such gains are viewed as indicative of the performance of the investor and useful for assessing stewardship.

8 In July 2015, EFRAG issued a Bulletin *Profit or loss versus OCI,* which identified four groups of business models, one of which was the long-term investment business model. The business models used by, for example, 'long-term investors' such as banks and entities that hold and manage investment properties, would generally belong to this group.

9 According to the Bulletin, in this business model, assets are purchased in order to generate a stream of revenue from period to period. Nevertheless, the ultimate cash inflow from the asset is often through sale in the market in which assets were originally bought and generally in a similar 'condition' as when it was bought. Cash flow generation is made of regular streams of revenue (e.g. in the form of dividends, or income from letting others use the asset) and of the sale of assets.

10 Those sales are critical events as disinvestment decisions are significant from a stewardship perspective. In those businesses the choice of investments / disinvestments is a reflection of the investment strategy. In many cases there is no 'added-value' in these businesses to the assets themselves; the expertise is in the development and the implementation of an investment strategy, including the maintenance of the assets in good operating conditions.

11 Changes in value of the assets from period to period are not relevant to periodic financial performance reporting, as the capital appreciation is secondary to the business model; the central feature is the stream of income derived from the assets. Measurement at cost (less impairment losses) would therefore be relevant from a profit or loss perspective. From the entity's financial position perspective, however, the asset's current value provides relevant information as the ultimate cash inflow is through sale, provided that the asset is in the condition in which it would be sold and there are sufficient observable market prices for similar transactions to determine the current value reliably.

12 When these conditions are met, the changes in the value of the investment assets should be reported in OCI. OCI would thus reflect the change in the entity's exposure to market price risk. Accumulated OCI would represent capital appreciation gains accumulated since the acquisition of the investment asset. This amount would be reported separately in profit or loss when the investment asset is sold ('recycling').

Collection of quantitative and qualitative data

13 The EFRAG Secretariat is currently collecting quantitative data on the size of the current portfolio of AFS equity instruments of financial institutions and insurance companies and the portion of them that is expected to be designated as FVOCI under IFRS 9. The EFRAG Secretariat is also collecting data on how entities currently assess their AFS equity instruments for impairment.

14 Moreover, there is already some data available from the field test conducted in June 2013 by EFRAG in collaboration with the ANC, ASCG, FRC and OIC, which identified how IFRS 9 would affect the current classification and measurement of financial assets.

15 The data will be presented at a future EFRAG TEG meeting.

Different sub-sets of equity instruments and related accounting implications

Introduction

16 Different alternative accounting and impairment models are presented later in this paper. Before discussing them, a first question is whether the project should try to come up with a solution common to all equity instruments, or identify some sub-set or sub-sets based on specific characteristics where the solution would apply.

17 Assuming that a sub-set is identified, the EFRAG Secretariat's preliminary view is that any other instrument not qualifying for the sub-set should be carried at fair value through profit or loss ('FVTPL'). Depending on how the sub-set is identified, the instruments excluded may be a larger or smaller population compared to the ones that are excluded from the voluntary designation under IFRS 9. We discuss three sub-sets; one based on a specific reason the entity acquires an equity instrument, a second based on the expected holding period, and a third based on the equity instrument's measurement.

Strategic versus financial investments

18 The first possible distinction is based on the reason an entity acquires the instrument. Entities acquire equity instruments of other entities for a variety of reasons. Some investments are acquired solely or primarily to collect a stream of expected cash flows in the form of dividends. This is often the case for equity instruments that offer a high dividend yield. Other entities acquire equity instruments for reasons other than primarily collecting dividends or even expectations of realising a short-term trading gain. The following are just some of the other reasons an entity might acquire equity instruments of another entity:

(a) gain influence over the investee, this could be a competitor, supplier, customer, or part of a distribution chain;

(b) an initial investment with a view that it may lead to a business combination (step-acquisition); and

(c) facilitate the formation of a strategic alliance.

19 The objectives are often clear when an entity acquires a controlling interest in another entity by making an investment in the equity instruments of that entity. The acquiring entity in a business combination is in many cases grouped into two categories of buyers; strategic or financial. The term strategic investment can be used in many contexts and this paper uses it as it is generally understood in an M&A context to illustrate one of the different reasons an entity acquires an equity instrument.

20 Generally, strategic buyers are primarily seeking to expand or gain synergies from an acquisition. They are usually looking at investments in entities that are in the same industry or part of the supply chain of the industry that the entity operates. Usually these entities are operating companies that manufacture a product or provide a service and they consider how a potentially acquired entity might fit into their existing operations. A strategic buyer may acquire a competitor in order to gain economies of scale or to expand their business, by increasing their customer base either geographically or by adding new lines of products or services.

21 A strategic buyer might also believe it can reduce costs or expand margins by vertically integrating within the industry. It might attempt to reduce its cost by acquiring a supplier thereby gaining greater control of input costs. It might also acquire a customer that might just be an intermediary between the final end user of the product or service.

22 Instead of expansion or synergies, financial buyers seek a financial return on their investment. Private equity firms or similar institutions or groups of investors identify entities, which they believe are undervalued with perceived profit improvement potential. That potential might be achieved by cost cutting or realising potential growth opportunities. The aim of the financial buyer is to implement perceived needed changes in the acquired entity with the aim to achieve necessary profit improvement. Once that profit improvement is sufficiently realised, the financial buyer usually obtains its financial return through a disposal either in an initial public offering or a direct sale of the business.

23 These terms are generally used in business combinations, but these same groupings might be useful when viewing the reasons that an entity acquires less than a controlling interest.

24 For example, some entities, often financial institutions, hold diversified managed portfolios of financial instruments, including equity instruments. Generally the purpose of holding the financial instruments is to achieve a financial return on the portfolio to offset financial obligations of the investor entity. The aim of investing in equity instruments in this case is to collect dividends or attempt to identify undervalued equity instruments with a view of realising a gain on the sale of the equity instrument. The portfolio might be designed for a long-term or short-term financial return depending on the entity's objectives and the duration of obligations the portfolio is designed to offset.

25 Other entities might acquire and hold investments in equity instruments that are not part of a managed diversified portfolio of financial instruments. Some entities acquire less than a controlling interest by owning equity instruments of another entity for arguably strategic reasons. For example, an entity might acquire equity instruments to form a joint venture or to gain significant influence of another entity. These investments in equity instruments are accounted using the equity method of accounting and are outside the scope of IFRS 9.

26 However, the strategic aim of the investing entity is not necessarily to achieve the equity method of accounting, but some other business purpose. It might be the beginning of a step acquisition or just to gain influence, even if falling short of significant influence. Under IAS 39, such investments in equity instruments would likely have been classified as AFS. The issue becomes whether these types of investments should be considered as a sub-set where a solution should apply.

Long-term versus short-term investments

27 Another distinguishing criterion could be the expected period of holding. Some might consider long-term investments to be equivalent to strategic investments. It would be reasonable to assume that an entity acquiring an interest that it sees as strategic would expect to hold it for a long period.

28 However, some financial investments (such as those of the private equity investors described above) may be long-term. Defining a sub-set of equity instruments based on the time horizon of the investment, may present some challenges.

29 Another reason an entity acquires an equity instrument is based on a business model for long-term investments. A common characteristic of a long-term investment business model is that there is a relationship of the investment activities with long-term liabilities of the entity, and the objective of the investment is to achieve a long-term return. Under IAS 39, such long-term investments in equity instruments would likely have been classified as AFS.

The level in the fair value hierarchy

30 A distinction based on the management purpose to hold the investment may be seen as an application of a 'business model' approach. However, some may be

concerned that it would involve a significant and unverifiable degree of judgement, whatever set of indicators are developed.

31 To avoid this, it might be necessary to select a more objective criterion based on the measurement characteristic of the instrument as a third sub-set. Equity instruments can be categorised based on the level in the hierarchy of their fair value measurement. Defining a sub-set based on the fair value measurement of the instrument, would be more objective than any sub-set that relies on management's discretion.

32 Some instruments are very liquid and tradable and their fair value is readily determinable. These instruments are quoted on active markets and their prices are Level 1 measurement. For other instruments there are no quoted prices in active markets; this group uses valuation techniques that rely on observable evidence or inputs and these are considered to be a Level 2 measurement and the last group are more illiquid and not very marketable. The measurement of their fair value needs to rely on unobservable inputs.

33 Equity instruments whose fair value can only be measured by using Level 3 inputs introduce a greater level of subjectivity to the fair value measurement. Since many equity instruments are not listed, the fair value of many instruments classified as AFS under IAS 39 would belong to this level of the fair value hierarchy.

34 One way to use the hierarchy to define different requirement would be to restrict the FVOCI treatment only to Level 3 instruments. The rationale would be based more on a reliability argument and less on relevance. Changes in a Level 3 fair value measurement could be seen as insufficiently reliable to be reported in profit or loss. Moreover, instruments at Level 3 are likely to be less tradable and liquid.

35 As described above, under IFRS 9 the designation at FVOCI is voluntary at the instrument level. If a sub-set was identified, the EFRAG Secretariat would recommend to discuss if the alternative treatment that would permit impairment and recycling should be still an option for the entity or be required. As an example, if a sub-set of strategic investments was identified and a specific impairment model developed, should this specific model be applicable only upon election or become a required treatment?

36 Given that many equity instruments fall into these different sub-sets, it would be interesting to investigate if entities will base their decision to designate some of their instruments at FVOCI based on whether the investment is acquired for strategic purposes, expected to be held for the long-term or uses a Level 3 fair value measurement. Each of these sub-sets described above could be used as a basis to restrict the FVOCI designation and/or apply one of the alternatives described below.

37 It may be even argued that for a sub-set defined on the basis of the criteria described above, the measurement basis could be different. However, at this stage of the project the EFRAG Secretariat assumes that all equity instruments will be carried at fair value on the statement of financial position.

Questions for EFRAG TEG

38 Does EFRAG TEG prefer to maintain common requirements for all equity instruments, or try to identify a specific sub-set (for instance 'strategic investment') to develop an impairment model?

39 If so, which of the criteria described above would you recommend to develop further?

Potential impairment approaches for investments in equity instruments

Introduction

40 An asset is impaired when an entity is unable to recover its carrying amount. IAS 36 *Impairment of Assets* defines an impairment loss as the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Recovery of the asset is in some cases based on a disposal value and in other cases it might be through its use. IAS 39 requires certain previously recognised declines in asset values to be re-characterised as an impairment, which results in a reclassification of amounts previously recognised in OCI.

41 IFRS 9, like IAS 39, requires entities to carry equity instruments at fair value on the statement of financial position. Therefore, given the definition of impairment under IAS 36, it might be argued that there is no impairment at any given reporting date since the carrying amount of the asset is aligned to its recoverable amount.

42 This paper considers that an impairment model for equity instruments could resemble impairment models used in IFRS for other assets. These models are summarised in Appendix 1 of this paper. Common characteristics of existing impairment models include:

(a) assessed regularly, although goodwill is also tested annually;

(b) measurement of the impairment loss is based on a fair value measurement or a discounted cash flow measurement; and

(c) reversal of previously recognised impairment losses, except for goodwill.

43 For other assets where impairment may apply in IFRS, some degree of judgment is necessary in determining either the timing and/or the amount of an impairment loss. Arguably, judgment and some subjectivity is inherent in these impairment methods and if that subjectivity is acceptable for other assets, then this should not be seen an impediment to an impairment approach for equity instruments.

44 Equity instruments are financial instruments and have characteristics common to other financial instruments. Some of these common characteristics include:

(a) a contract providing the holder with certain rights;

(b) often very liquid and tradeable; and

(c) generally more readily determinable value.

45 Equity instruments also have distinct differences with other financial instruments which include:

(a) it is not a right to receive a determinable amount of cash making their cash flows less certain;

(b) evidence of ownership in another entity; and

(c) exposure to risks other than just credit risk.

46 With the differences noted above, it could be suggested that equity instruments have sufficient similarities with other assets that may justify an impairment approach similar to those assets.

Some initial alternatives

47 The EFRAG Secretariat has identified some initial alternatives that could be used and are presented at a high level as there would be numerous ways to enact most of them. These are:

(a) an approach where no impairment loss is recognised during the holding period, and only gains (or losses) on disposal are recognised in profit or loss;

(b) an approach similar to the impairment model for AFS with some variation;

(c) an approach that borrows some of the guidance of IAS 36, for instance in defining indicators and the unit of account (similar to the testing for goodwill under IAS 36); and

(d) a 'lower of cost or fair value' approach.

48 We note that the first approach above is not an impairment approach and only addresses recycling. Each of the above approaches could be articulated differently.

Recycling upon derecognition

49 One option would be to simply ignore the impairment issues and allow recycling upon sale. This would be an exception to the general requirements in IFRS, under which all assets are subject to recognition of impairment. However, as noted from a statement of financial position perspective the carrying amount of these instruments is already aligned to the recoverable amount.

50 Considering that this would be an exception to the general requirements, the EFRAG Secretariat believes that to pursue this option it would be necessary to identify a sub-set of instruments, possibly quite restricted. This option does not seem appropriate for the full population of equity instruments.

51 Under this approach, an entity would have the ability to defer losses indefinitely by holding investments in equity instruments that have declined in value after initial acquisition. Some might express concern about an entity having that ability, however, indefinite loss deferral is mitigated somewhat by the fact that many entities operate in tax jurisdictions that limit the deduction of losses on equity instruments to realised losses. As a result, many entities have an economic compulsion to realise a loss in order to reduce their tax payments to tax authorities. Of course the exact timing of any disposal can still be based on management's discretion.

Modify current IAS 39's approach for AFS equity instruments

52 IAS 39 requires that entities assess in each reporting period whether there is objective evidence of impairment for AFS. Most of the impairment guidance in IAS 39 relates more to holders of debt instruments than to holders of equity instruments. However, paragraph 60 directly addresses equity instruments[1].

53 Any information that has a significant adverse impact related to the technological, market, economic or legal environment would presumably already be reflected in the fair value of the equity instrument. Attempting to identify the fair value impact of one specific factor is likely subjective as there are many other factors that impact the fair value of an equity instrument. Further, these impacts may have accreted over time rather than in a single period making impossible to quantify any change attributable to any given factor. Given that difficulty, many entities may have relied on the last sentence of the guidance related to a significant or prolonged decline in the fair value in determining whether an investment is impaired.

54 Determining what is a significant and prolonged decline in the fair value of an equity instrument requires some judgment as to both determining the size of the decline and the time period. The judgments about those aspects likely differ both between

[1] 'In addition to the types of events in paragraph 59, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an equity instrument below its cost is also objective evidence of impairment.'

entities and within some entities from period to period or from one equity instrument to another.

55 The impairment approach of IAS 39 could be modified to make the impairment determinations more objective by providing more operational guidance. The key element of IAS 39's impairment approach rests on the terms 'significant' and 'prolonged'.

56 One method of making these terms more objective and operational in practice is to define each term by setting quantitative thresholds. For example, a 'significant' decline can be defined as a specific percentage decline from the initial acquisition cost and 'prolonged' can be defined as a specified time period where the fair value is below the initial acquisition cost. This defining can be done in one of two ways:

(a) The IASB would specifically define the values associated with both terms; or

(b) Require entities to define quantitative thresholds as part of their accounting policy, and disclose them.

57 The first option would eliminate all judgment from an impairment approach for investments in equity instruments. Thus the subjectivity that concerned the IASB in the development of IFRS 9 could be mitigated with a bright line. For example, if an investment in an equity instrument declined a certain percent from its initial acquisition cost, then an impairment would be required to be recognised as a loss and transferred out of OCI.

58 The same could be done to define 'prolonged'. However, another potential change might be to simply drop 'prolonged' altogether from the impairment assessment. If the fair value of an equity instrument is below its acquisition cost for an extended period of time, but the difference is insignificant, is an impairment charge even necessary? If significant, the impairment charge to profit and loss would be recognised under the first criteria. Including 'prolonged' as criteria might be adding unnecessary complexity to the process.

59 Determining a threshold to trigger the recognition of an impairment loss might be debateable since any figure is somewhat arbitrary and also it may be argued that a single threshold for all equity instruments is not appropriate and different thresholds should be used to take into account the equity instrument's characteristics or geographic location of the issuer.

60 The second option - requiring each entity to determine their thresholds - allows each entity to make a judgment as to an appropriate accounting policy to impair their equity instruments. That stated policy presumably provides internal consistency within the reporting entity and provides a basis for users to gain better insight of the entity's operating results. It could be argued that comparability with other entities will be impaired by leaving the threshold entirely to the entity's discretion. On the other hand, this may result in a degree of pressure on outlier entities to converge to a general market practice.

Borrowing some aspects from IAS 36

61 Alternatively, the impairment model could borrow some of the elements in IAS 36. There are two elements contained in IAS 36 that are used for impairment. The first element is that there needs to periodic assessment of whether impairment indicators exist. The second element contained in IAS 36 relates to the determination of whether the asset should be grouped with other assets for measurement purposes.

<u>Indicators</u>

62 The key recognition principle of IAS 36 is to make an assessment for impairment each reporting period using indicators of impairment to determine if an asset might be impaired. The specific indicators used in an impairment approach have an impact on the timing of recognition of any impairment recognised by an entity. An approach

that requires further assessment of impairment if only one trigger is present is less subjective than an approach that may allow more judgment if only one indicator exists.

Portfolio of equity instruments as a unit of account

63 The key measurement principle of IAS 36 is to measure the impaired asset at its recoverable amount. One aspect of using this principle requires that if an asset does not have its own recoverable amount that it be grouped with other assets. A common characteristic of grouping of assets is to define the lowest level of identifiable cash flows associated with an asset.

64 Even if equity instruments have separately identifiable cash flows, a grouping of similar assets could be considered. For example, if an entity has a portfolio of equity instruments where each individual instrument is designated as FVOCI as part of a long-term business model, then possibly these instruments could be grouped together to determine if the portfolio is impaired.

65 If the portfolio contained some equity instruments whose fair value was significantly below the entity's acquisition cost yet the portfolio included instruments with gains that more than offset those losses, then there would be no need to recognise an impairment. However, if the portfolio was in a net unrealised loss position then the entity would be required to recycle a portion of the loss previously recognised in OCI to profit and loss.

Identifying the Cash Generating Unit ('CGU') to which the equity instrument belongs (only for 'strategic' investments)

66 The guidance in IAS 36 for allocating goodwill in CGUs could be applied to strategic equity instruments since these investments might not be held in a portfolio. The rationale would be that the economic benefits from the acquisition of these investments do not lie in the dividend stream and the capital appreciation, but in the indirect benefits that holding such investments may allow (for example, access to specific markets may be facilitated or eased, hence generating economic benefit to the entity); therefore, for the purposes of the impairment test, their recoverable amount should be tested at the level of the CGU expected to benefit from their acquisition.

Use of a 'lower of cost or fair value' approach

67 In commenting to the IASB's ED *Financial Instruments: Classification and Measurements*, EFRAG suggested that the IASB should consider a 'lower of cost or market' approach in which all declines below the original purchase cost (and reversals) would be recorded in profit or loss. EFRAG observed that such an approach has the advantage of simplicity, and it would also eliminate concerns about the subjectivity in determining when an impairment has occurred. This would not change the measurement basis on the statement of financial position.

68 The IASB considered but rejected such an approach when revising IAS 39 in 2003 because it felt that it would "significantly change the notion of AFS in practice". However, in its comment letter, EFRAG noted that given that under the current project the IASB was in any case eliminating the notion of AFS, then that argument should no longer prevent this pragmatic solution from being adopted.

69 A possible variation could involve measuring the impairment loss based on the share of cumulated post-acquisition losses attributable to the holder of the investments.

70 The following table provides a high level summary of the key advantage and key disadvantage of each of the approaches described above:

Specific approach	Key Advantage	Key Disadvantage
Recycling upon derecognition	The simplest approach	Timing of profit and loss recognition is fully discretionary
Modification of current IAS 39 impairment for AFS	Retains concepts of current practice	Use of bright lines
Method based on IAS 36	The most consistent approach to other assets	Higher degree of subjectivity than other approaches
Lower of cost or fair value	The least subjective	Similar to FVPL but only losses in profit or loss

71 Since the latter three approaches can be further developed in alternative ways, it may be possible to mitigate the key disadvantage noted above or any other disadvantage for that specific approach.

Question for EFRAG TEG

72 Which of these approaches would EFRAG TEG support the EFRAG Secretariat to develop further?

Appendix 1: Existing impairment approaches for other assets

Introduction

1 IFRS allows for impairment recognition through profit and loss of most assets. Below is a very brief summary of existing impairment requirements for other assets.

The details

Financial instruments under IFRS 9

2 The model in IFRS 9 is conceptually a 'loss allowance' model, recognising a provision for expected credit losses (on reasonable and supportable information, including historical, current and forward-looking information) on financial assets before any losses have been incurred and updating the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. Credit losses are the value of the difference between the contractual cash flows that are contractually due to the entity and the cash flows that the entity actually expects to receive discounted at the original effective interest rate. The loss allowance model has three stages.

Stage 1

3 At the reporting date, if credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses (i.e. the portion of lifetime expected credit losses that represents the expected credit losses that could result from default events that are possible within 12 months from the reporting date).

Stage 2

4 At each reporting date, if the credit risk increases significantly from initial recognition, full lifetime expected credit losses are recognised (subject to one practical expedient).

Stage 3

5 A financial asset reaches stage 3 if it is specifically identified as credit-impaired. At this stage, recognition of interest revenue changes whereas expected credit losses continue to be recognised on a lifetime losses basis.

Goodwill and other intangible assets

6 IAS 36 requires that an impairment test be conducted for goodwill annually at the cash generating unit level. A cash generating unit is the smallest grouping of assets with identifiable cash flows. The test compares the cash generating units carrying amount, including goodwill, with its expected recoverable amount.

7 If the test suggests that there is an impairment loss, the loss amount is first allocated to reduce goodwill. Reversal of the impairment loss allocated to goodwill is prohibited.

8 Other intangible assets with indefinite lives are also required to be tested annually for impairment by comparing the carrying amount of the asset with its expected recoverability. Unlike goodwill however, subsequent impairment reversals are allowed.

Long-lived tangible assets

9 Long-lived tangible assets under IAS 36 are assessed for impairment each reporting period to determine if any indication exists that assets might be impaired. An important aspect of IAS 36 is determining whether any indicators exist that might

require an impairment test. IAS 36 provides guidance for indicators of impairment which can be both external and internal factors.

10 If any of the indicators have been triggered, then an impairment test is made to determine the recoverable amount for individual assets if possible. Otherwise, assets are grouped into CGUs to determine the recoverable amount for the CGU. The recoverable amount of the asset or CGU is the higher of the asset's or CGU's fair value less cost to sell and its value in use. The value in use is an estimate of the discounted future cash flows the entity expects from the asset or CGU. The value in use is subject to judgment and entity-specific.

Other assets

11 Inventories, under IAS 2, are measured at the lower of cost or net realisable value. Net realisable value is determined based on the expected selling price in the ordinary course of business less estimated selling costs.

12 Deferred tax assets, under IAS 12, are reviewed at each reporting period. Deferred tax assets are reduced if it not probably that there will be sufficient taxable profit will be available in the future to utilise the asset. If it is determined that it is unlikely there will be insufficient taxable income in future tax periods to utilise the tax asset, the asset is written down to the amount likely to be recovered.

13 A loss on an asset recognised under construction contracts under IFRS 15 to the extent that the carrying amount of the asset exceeds the remaining amount of the excess consideration the entity expects to receive over its expected remaining costs to provide goods or services under the contract.