Introduction and Invitation to Comment

The International Accounting Standards Board proposes to amend IAS 28 *Investments in Associates* to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed.

The Board invites comments on the proposed amendment. It would particularly welcome answers to the question below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The Board is not requesting comments on matters in IAS 28 not addressed in the exposure draft.

Question

Do you agree with the proposal to amend paragraph 33 of IAS 28 to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed? If not, why?

Proposed amendment to IAS 28 *Investments in Associates*

In the Standard, paragraph 33 is amended (new text is underlined, deleted text is struck through).

Impairment losses

…

33 Because goodwill included in the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets*. Instead, the entire carrying amount of the investment is tested ~~under~~ in accordance with IAS 36 for impairment as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in IAS 39 indicates that the investment may be impaired. Any impairment loss recognised in these circumstances is not allocated to the goodwill and other assets included in the investment in the associate. Accordingly, any reversals of these impairment losses are recognised to the extent that the recoverable amount of the investment subsequently increases. In determining the value in use of the investment, an entity estimates:

(a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or

(b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result.

Basis for Conclusions on
Proposed Amendment to IAS 28 Investments in Associates

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Impairment losses

BC1 The Board has identified unclear guidance in IAS 28 *Investments in Associates* regarding the extent to which impairment reversals should be recognised as an adjustment to the carrying amount of an investment in an associate.

BC2 The Board noted that applying the equity method involves adjusting the investor's share of impairment losses recognised by the associate on assets such as goodwill or property, plant and equipment, to take account of the acquisition date fair values of those assets. The Board decided that any impairment recorded by the investor after applying the equity method should not be allocated against any goodwill included in the investment balance. Therefore, such an impairment charge should be reversed in a subsequent period to the extent that the recoverable amount of the associate increases.

BC3 The Board decided to resolve this ambiguity by clarifying that an investment in an associate is treated as a single asset for impairment testing. It also decided to specify that any impairment loss is not allocated against any goodwill or other assets included in the investment balance. Accordingly, reversals of this impairment loss should be recognised as an adjustment to the investment in the associate to the extent that the recoverable amount of the associate increases.