

[Paragraphs 41A – 41C were added to IAS 28 as a consequential amendment when the Board issued IFRS 9. The requirements in paragraphs 41A-41C are similar to those in paragraphs 59-61 of IAS 39]

IAS 39 Financial Instruments: Recognition and Measurement (July 2009)

Meaning of “Significant or prolonged”

The IFRIC received a request to provide guidance on the meaning of ‘significant or prolonged’ (as described in paragraph 61 [now paragraph 41C of IAS 28]) in recognising impairment on available-for-sale equity instruments in accordance with IAS 39.

The IFRIC agreed with the submission that significant diversity exists in practice on this issue. The IFRIC concluded that some of this diversity is the result of differing ways the requirements of IAS 39 are being implemented, some of which were identified in the submission. The IFRIC noted some applications in particular that are not in accordance with the requirements of IAS 39. For example:

- The standard cannot be read to require the decline in value to be both significant and prolonged. Thus, either a significant or a prolonged decline is sufficient to require the recognition of an impairment loss. The IFRIC noted that in finalising the 2003 amendments to IAS 39, the Board deliberately changed the word from ‘and’ to ‘or’.
- Paragraph 67 of IAS 39 requires an entity to recognise an impairment loss on available-for-sale equity instruments if there is objective evidence of impairment. Paragraph 61 [now paragraph 41C of IAS 28] of IAS 39 states: ‘A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.’ [emphasis added] Consequently, the IFRIC concluded that when such a decline exists, recognition of an impairment loss is required.
- The fact that the decline in the value of an investment is in line with the overall level of decline in the relevant market does not mean that an entity can conclude the investment is not impaired.
- The existence of a significant or prolonged decline cannot be overcome by forecasts of an expected recovery of market values, regardless of their expected timing.

The IFRIC noted that the applications that are not in accordance with the requirements of IAS 39 it discussed were examples only and were unlikely to be an exhaustive list of all the inconsistencies with the standard that might exist in practice.

The IFRIC also noted that the determination of what constitutes a significant or prolonged decline is a matter of fact that requires the application of judgement. The IFRIC noted that this is true even though an entity may develop internal guidance to assist it in applying that judgement consistently. The IFRIC further noted that an entity would provide disclosure about the judgements it made in determining the existence of objective evidence and the amounts of impairment in accordance with paragraphs 122 and 123 of IAS 1 *Presentation of Financial Statements* and paragraph 20 of IFRS 7 *Financial Instruments: Disclosures* [IFRS 7 is not applicable to interests in associates and joint ventures accounted for in accordance with IAS 28].

Although the IFRIC recognised that significant diversity exists in practice, it noted that the Board has accelerated its project to develop a replacement for IAS 39 and expects to issue a new standard soon. Therefore, the IFRIC decided not to add this issue to its agenda.