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Project	Goodwill and Impairment research project		
Paper topic	Subsequent accounting for goodwill		
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Purpose

1. The purpose of this paper is to set out the staff's current thoughts on possible alternative approaches for subsequent accounting for acquired goodwill, especially the possible approach of amortising goodwill.

Objective

2. IFRS Standards currently apply an impairment-only approach in accounting for goodwill in periods after the date of the business combination in which the goodwill arose. That approach also applies to other intangible assets with an indefinite useful life. The objective of considering other possible approaches for subsequent accounting for goodwill is to assess whether the costs of accounting for goodwill could be reduced without diminishing the usefulness of the information it provides.

Structure of the paper

3. The paper is structured as follows:

   (a) background and introduction (paragraphs 4–7)

   (b) goodwill is an asset (paragraphs 8–14)

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(c) possible alternative approach for subsequent accounting for goodwill—amortising goodwill (paragraphs 16–28)

(d) question for the Board

(e) *Appendix A*—Extracts from the Basis for Conclusions on IAS 36

(f) *Appendix B*—Other possible alternative approaches for subsequent accounting for goodwill

  (i) componentising goodwill and accounting for the components separately

  (ii) immediate write-off of goodwill on initial recognition

Background and introduction

4. The Board previously discussed the following approaches in October 2015 and February 2016:

   (a) amortisation of acquired goodwill together with testing goodwill for impairment;

   (b) componentising goodwill and accounting for the components separately; and

   (c) immediate write-off of goodwill on initial recognition.

5. This paper discusses amortisation of goodwill. The staff's analysis focuses on whether there is any new information or new conceptual arguments in support of amortising goodwill.

6. This paper does not discuss the approaches in paragraphs 4(b) (componentising goodwill) and 4(c) (immediate write-off of goodwill). *Appendix B* includes the staff's analysis of those approaches as presented to the Board at past meetings, and explains why the staff recommends that the Board does not pursue them.

7. Before considering possible amortisation of goodwill, the staff provide a recap of (a) whether goodwill qualifies as an asset; and (b) the composition of goodwill. (See paragraphs 8–14.)

Goodwill is an asset

Conclusions in current IFRS Standards

8. Paragraphs BC313–BC327 of the Basis for Conclusions on IFRS 3 *Business Combinations* explain the Board's considerations in concluding that goodwill acquired in a business combination qualifies as an asset. In reaching that conclusion, the Board observed that goodwill acquired in a business combination is composed of:

   (a) the going concern element of the acquired business; and

   (b) the expected synergies and other benefits from combining the acquirer's businesses with the acquired businesses.

   The Board described these components collectively as *core goodwill*.

9. The going concern element represents the ability of the established business to earn a higher rate of return on an assembled collection of net assets than would be expected if those net assets had to be acquired separately. That value stems from the synergies of the net assets of the business, as well as from other benefits (such as factors related to market imperfections, including the ability to earn monopoly profits and barriers—either legal or because of transaction costs—to market entry by potential competitors).

10. The synergies reflect the excess assembled value that is created by combining the acquirer's business with the acquired business. Those synergies and other benefits are unique to each combination, and different combinations would produce different synergies and, hence, different values.

11. The Board also observed then that paragraph 4.8 of *The Conceptual Framework for Financial Reporting* explains that 'the future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity.'

12. The Board concluded that core goodwill represents resources from which future economic benefits are expected to flow to the entity. In considering whether core goodwill represents a resource controlled by the entity, the Board considered the assertion that core goodwill arises, at least in part, through factors such as a

well-trained workforce, loyal customers and so on, and that these factors cannot be regarded as controlled by the entity because the workforce could leave and the customers could go elsewhere. However, the Board concluded that control of core goodwill is provided by means of the acquirer's power to direct the policies and management of the acquired business. Therefore, the Board concluded that core goodwill meets the conceptual definition of an asset.

13. Some stakeholders make the criticism that because of its measurement as a residual goodwill is just a plug and not an asset. The staff think that goodwill is not a plug for reasons explained in paragraphs 8–12.

14. However, the residual measurement causes any overpayment of purchase consideration to become subsumed in goodwill. The Board considered this issue when replacing IAS 22 with IFRS 3 in 2004 and when revising IFRS 3 in 2008. Paragraph BC382 of IFRS 3 (2008) explains the Board's considerations as follows:

> The boards considered whether the revised standards should include special provisions to account for a business combination in which a buyer overpays for its interest in the acquiree. The boards acknowledged that overpayments are possible and, in concept, an overpayment should lead to the acquirer's recognition of an expense (or loss) in the period of the acquisition. However, the boards believe that in practice any overpayment is unlikely to be detectable or known at the acquisition date. In other words, the boards are not aware of instances in which a buyer knowingly overpays or is compelled to overpay a seller to acquire a business. Even if an acquirer thinks it might have overpaid in some sense, the amount of overpayment would be difficult, if not impossible, to quantify. Thus, the boards concluded that in practice it is not possible to identify and reliably measure an overpayment at the acquisition date. Accounting for overpayments is best addressed through subsequent impairment testing when evidence of a potential overpayment first arises.

Analysis on the basis of the 2015 Exposure Draft Conceptual Framework for Financial Reporting

15. At the October 2016 Board meeting, the *Conceptual Framework* project staff presented the results from testing the effects of the proposed definitions of an asset and a liability on ongoing projects. The project staff applied the proposed definition of an asset to goodwill and concluded that goodwill meets the proposed definition. (See Example 1.1 of Agenda Paper 10C for that meeting.)

Possible alternative approach for subsequent accounting for goodwill—amortising goodwill

16. To respond to feedback from some stakeholders during the Post-implementation Review of IFRS 3, the Board could consider allowing entities to amortise goodwill over its expected useful life, while also still testing goodwill for impairment.

Brief history

17. IAS 22 (revised 1993) *Business Combinations*, the Standard that preceded IFRS 3, required acquired goodwill to be amortised on a systematic basis over the best estimate of its useful life. There was a rebuttable presumption that its useful life did not exceed twenty years from initial recognition. If that presumption was rebutted, acquired goodwill was required to be tested for impairment (in accordance with the previous version of IAS 36 *Impairment of Assets*) at least at each financial year-end, even if there was no indication that it was impaired.

18. Subsequently, when replacing IAS 22 with IFRS 3, the Board concluded that goodwill should not be amortised and instead should be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. The Board's considerations are explained in paragraphs BC131A–BC136 of the Basis for Conclusions on IAS 36. See *Appendix A* for extracts of those paragraphs. The Board's main consideration (as explained in paragraph BC131E) was that assessing goodwill annually for impairment provides better information than an allocation of the cost through an amortisation charge. The amount of amortisation depends on factors that are

generally not possible to predict, such as the useful life of the acquired goodwill and the pattern in which it diminishes. Furthermore, the Board was doubtful about the usefulness of an amortisation charge that reflects the consumption of acquired goodwill, when the internally generated goodwill replacing it is not recognised.

Work performed by a few national standard-setters

Research on amortisation of goodwill

19. In the past, the European Financial Reporting Advisory Group (EFRAG), the Organismo Italiano di Contabilità (OIC), and the Accounting Standards Board of Japan (ASBJ) (collectively, the EFRAG/OIC/ASBJ Research Group) conducted surveys and outreach to collect information related to the relevance of the impairment-only approach for subsequent accounting for goodwill. The outcome of the surveys was a discussion paper *Should Goodwill Still Not Be Amortised?* that the EFRAG/OIC/ASBJ Research Group issued in July 2014. The discussion paper sought views from stakeholders whether goodwill should be amortised. The EFRAG/OIC/ASBJ Research Group published a feedback statement in February 2015. According to the feedback statement, most respondents (of the 29 comment letters) agreed that the impairment-only approach for acquired goodwill was not the most appropriate solution for subsequent measurement and agreed with the idea of reintroducing amortisation of goodwill.

20. The ASBJ also published two research papers—one on amortisation of goodwill in May 2015, and another on analyst views on financial information regarding goodwill in June 2017. As part of the research, the ASBJ performed surveys seeking investors' view on amortisation of goodwill. The views of investors were mixed as to whether they preferred the impairment-only approach or a combination of amortisation and impairment.

21. The staff considered the work of the three national standard-setters in its analysis of whether there is any new information or new conceptual arguments in support of amortising goodwill.

Quantitative study on goodwill

22. At the July 2016 meeting of the Accounting Standards Advisory Forum, the staff of EFRAG and the ASBJ presented a quantitative study on goodwill and impairment (Agenda Paper 6 of that meeting). The staff of EFRAG and the ASBJ analysed (a) trends in goodwill, intangible assets and impairment charges over ten years; and (b) a few ratios such as goodwill to net assets and goodwill to market capitalisation. The study focused on data from the United States, Europe, Japan and Australia.

23. Although the data was considered useful, there were questions about whether definitive conclusions could be drawn. The summary of the meeting can be accessed here.

Staff analysis

24. Those stakeholders who continue to support amortising goodwill continue to cite the arguments of respondents to the 2004 Exposure Draft of revisions to IAS 36. The arguments (as listed in paragraph BC131D of the Basis for Conclusions on IAS 36) are as follows:

    (a) acquired goodwill is an asset that is consumed and replaced by internally generated goodwill. Therefore, amortisation ensures that the acquired goodwill is recognised in profit or loss and no internally generated goodwill is recognised as an asset in its place, consistently with the general prohibition in IAS 38 *Intangible Assets* on the recognition of internally generated goodwill.

    (b) conceptually, amortisation is a method of allocating the cost of acquired goodwill over the periods in which it is consumed, and is consistent with the approach taken to other intangible and tangible fixed assets that do not have indefinite useful lives. Indeed, entities are required to determine the useful lives of items of property, plant and equipment, and allocate their depreciable amounts on a systematic basis over those useful lives. There is no conceptual reason for treating acquired goodwill differently.

(c) the useful life of acquired goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which that goodwill diminishes be known. However, systematic amortisation over an albeit arbitrary period provides an appropriate balance between conceptual soundness and operationality at an acceptable cost; it is the only practical solution to an intractable problem.

25. Those stakeholders put forward the following additional arguments in support of amortisation of goodwill:

(a) knowing that a majority of investors have consistently maintained that amortisation of goodwill is generally disregarded or ignored in their analysis, the Board should focus on the arguments put forth by other stakeholders, mainly preparers. Measuring recoverable amount, which is a valuation concept, is a costly and complex process. Improving the effectiveness of the impairment test further increases the costs and complexity of the process. Any simplifications to that process would provide only limited benefits to preparers. Amortising goodwill is likely to be seen by many preparers as the only way to reduce significantly the costs and complexity of subsequent accounting for goodwill.

(b) the two main concerns of the Board when considering subsequent accounting for goodwill in 2004 (as explained in paragraph BC131E of the Basis for Conclusions on IAS 36) were that (i) predicting the useful life of goodwill and the pattern in which goodwill diminishes is impossible—consequently, the amount of amortisation is an arbitrary estimate; and (ii) recognising just an amortisation charge that reflects the consumption of acquired goodwill without recognising the internally generated goodwill that replaces it may not provide useful information. Nevertheless, the practical concerns described in bullet (i) do not imply that amortisation is conceptually flawed. The Board should carry out further research that focuses on developing views about an appropriate amortisation period. Moreover, the concerns in bullet (ii) should not stop the Board from reintroducing amortisation because recognising amortisation for consumption of goodwill is

conceptually appropriate and not recognising internally generated goodwill is consistent with the principles in IAS 38.

(c) the term 'impairment' is usually perceived as associated with negative events, such as a bad investment decision. However, any impairment of goodwill recognised applying IAS 36 may not necessarily reflect a bad investment decision but may instead (or also) reflect an accumulated consumption of acquired goodwill. If goodwill is amortised, the amortisation would capture the gradual consumption of goodwill and any impairment would capture losses from bad investment decisions.

(d) during development of the *IFRS for SMEs*, the Board concluded that for cost-benefit reasons, rather than conceptual reasons, goodwill and other indefinite-lived intangible assets should be considered to have finite lives and amortised.[1] The Board's main cost-benefit reasons for SMEs were:

   (i) smaller entities may find it difficult to assess impairment as accurately, or on as timely a basis, as larger entities, meaning the information could be less reliable.

   (ii) amortisation, particularly over a relatively short amortisation period, would reduce the circumstances in which an impairment calculation would be triggered.

26. The following are the key arguments for not moving back to amortising goodwill:

(a) by its nature, goodwill (or core goodwill) is often considered to have an indefinite life. If there is no foreseeable limit on the period during which an entity expects to consume future economic benefits embodied in goodwill, amortisation over an arbitrarily determined period would not faithfully represent the substance of the consumption of the goodwill. Thus. a decision to reintroduce amortisation of goodwill would contradict the principles in IAS 38.

(b) stakeholders have always agreed that impairment testing of goodwill can provide useful information, at least in principle and possibly in

[1] Paragraphs BC108–BC112 in the 2015 Basis for Conclusions accompanying the *IFRS for SMEs*.

practice. Amortising goodwill would ease the pressure on impairment testing, and would perhaps eliminate the need for annual quantitative impairment testing when no indicator or impairment is present. If that happens, entities would not gather the inputs used for determining recoverable amount on an annual basis. Furthermore, amortisation of goodwill has no confirmatory value or predictive value whatsoever.

(c) only a small minority of investors support amortising goodwill. A majority of investors have consistently maintained that amortisation of goodwill, and even intangible assets, is generally disregarded or ignored in their analysis. They think that unlike depreciation of tangible assets, amortisation of goodwill or many intangible assets does not provide information about potential future cash outflows. If investors disregard or ignore amortisation, preparers' concerns about the cost and complexity of the impairment test would not be sufficient reason to reintroduce amortisation of goodwill.

(d) reintroducing amortisation may not significantly reduce cost and complexity. Straight-line amortisation of goodwill is very likely to be viewed as arbitrary and not useful. A more robust amortisation model may have to be developed to make the amount of amortisation useful. That could be perceived as complex because estimating the primary inputs—useful life of goodwill and the pattern in which acquired goodwill is consumed—is very judgemental.

(e) there is a risk that reintroducing amortisation would divert attention from the problems of poor impairment testing, ie it would help to avoid overstatement of goodwill, but would not focus on the underlying problem which is the need to improve how the impairment test is being performed to ensure that impairment of goodwill is properly recognised.

(f) some stakeholders think that the current impairment-only approach for goodwill has gained wide acceptance as providing useful information and there is no evidence of IAS 36 failing to achieve its intended objective.

(g) the conceptual debate between amortising goodwill and only testing goodwill for any impairment is never ending. On issues for which views have always been so polarised, and may perhaps always remain polarised, it would not be appropriate to change the accounting model every few years unless significant new evidence has emerged indicating that previous conclusions are no longer valid.

Staff conclusions

27. The staff think that the Board's considerations explained in paragraph BC131E of the Basis for Conclusions on IAS 36 continue to be valid. The Board would need significant new evidence, or strong new arguments, to support moving back to an amortisation model. The reasons set out in paragraphs 24–25 in support of amortising goodwill are not new arguments and are not strong enough to support reintroducing amortisation.

28. The staff support the arguments set out in paragraph 26 for not moving back to amortising goodwill and recommend that the Board should not develop a proposal to reintroduce amortisation of goodwill.

Question for the Board

Does the Board agree that the Board should not develop a proposal to reintroduce amortisation of goodwill?

Appendix A
Extracts from the Basis for Conclusions on IAS 36

Testing goodwill for impairment (paragraphs 80–99)

BC131 [Deleted]

BC131A The Board concluded that goodwill should not be amortised and instead should be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. IAS 22 *Business Combinations* required acquired goodwill to be amortised on a systematic basis over the best estimate of its useful life. There was a rebuttable presumption that its useful life did not exceed twenty years from initial recognition. If that presumption was rebutted, acquired goodwill was required to be tested for impairment in accordance with the previous version of IAS 36 at least at each financial year-end, even if there was no indication that it was impaired.

BC131B In considering the appropriate accounting for acquired goodwill after its initial recognition, the Board examined the following three approaches:

(a) straight-line amortisation but with an impairment test whenever there is an indication that the goodwill might be impaired;

(b) non-amortisation but with an impairment test annually or more frequently if events or changes in circumstances indicate that the goodwill might be impaired; and

(c) permitting entities a choice between approaches (a) and (b).

BC131C The Board concluded, and the respondents to ED 3 *Business Combinations* that expressed a clear view on this issue generally agreed, that entities should not be allowed a choice between approaches (a) and (b). Permitting such choices impairs the usefulness of the information provided to users of financial statements because both comparability and reliability are diminished.

BC131D The respondents to ED 3 who expressed a clear view on this issue generally supported approach (a). They put forward the following arguments in support of that approach:

(a) acquired goodwill is an asset that is consumed and replaced by internally generated goodwill. Therefore, amortisation ensures that the acquired goodwill is recognised in profit or loss and no internally generated goodwill is recognised as an asset in its place, consistently with the general prohibition in IAS 38 on the recognition of internally generated goodwill.

(b) conceptually, amortisation is a method of allocating the cost of acquired goodwill over the periods it is consumed, and is consistent with the approach taken to other intangible and tangible fixed assets that do not have indefinite useful lives. Indeed, entities are required to determine the useful lives of items of property, plant and equipment, and allocate their depreciable amounts on a systematic basis over those useful lives. There is no conceptual reason for treating acquired goodwill differently.

(c) the useful life of acquired goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which that goodwill diminishes be known. However, systematic amortisation over an albeit arbitrary period provides an appropriate balance between conceptual soundness and operationality at an acceptable cost: it is the only practical solution to an intractable problem.

BC131E In considering these comments, the Board agreed that achieving an acceptable level of reliability in the form of representational faithfulness while striking some balance with

what is practicable was the primary challenge it faced in deliberating the subsequent accounting for goodwill. The Board observed that the useful life of acquired goodwill and the pattern in which it diminishes generally are not possible to predict, yet its amortisation depends on such predictions. As a result, the amount amortised in any given period can be described as at best an arbitrary estimate of the consumption of acquired goodwill during that period. The Board acknowledged that if goodwill is an asset, in some sense it must be true that goodwill acquired in a business combination is being consumed and replaced by internally generated goodwill, provided that an entity is able to maintain the overall value of goodwill (by, for example, expending resources on advertising and customer service). However, consistently with the view it reached in developing ED 3, the Board remained doubtful about the usefulness of an amortisation charge that reflects the consumption of acquired goodwill, when the internally generated goodwill replacing it is not recognised. Therefore, the Board reaffirmed the conclusion it reached in developing ED 3 that straight-line amortisation of goodwill over an arbitrary period fails to provide useful information. The Board noted that both anecdotal and research evidence supports this view.

BC131F In considering respondents' comments summarised in paragraph BC131D(b), the Board noted that although the useful lives of both goodwill and tangible fixed assets are directly related to the period over which they are expected to generate net cash inflows for the entity, the expected physical utility to the entity of a tangible fixed asset places an upper limit on the asset's useful life. In other words, unlike goodwill, the useful life of a tangible fixed asset could never extend beyond the asset's expected physical utility to the entity.

BC131G The Board reaffirmed the view it reached in developing ED 3 that if a rigorous and operational impairment test could be devised, more useful information would be provided to users of an entity's financial statements under an approach in which goodwill is not amortised, but instead tested for impairment annually or more frequently if events or changes in circumstances indicate that the goodwill might be impaired. After considering respondents' comments to the exposure draft of proposed amendments to IAS 36 on the form that such an impairment test should take, the Board concluded that a sufficiently rigorous and operational impairment test could be devised.

BC132 Paragraphs BC133–BC177 outline the Board's deliberations on the form that the impairment test for goodwill should take:

(a) paragraphs BC137–BC159 discuss the requirements relating to the allocation of goodwill to cash-generating units and the level at which goodwill is tested for impairment.

(b) paragraphs BC160–BC170 discuss the requirements relating to the recognition and measurement of impairment losses for goodwill, including the frequency of impairment testing.

(c) paragraphs BC171–BC177 discuss the requirements relating to the timing of goodwill impairment tests.

BC133 As a first step in its deliberations, the Board considered the objective of the goodwill impairment test and the measure of recoverable amount that should be adopted for such a test. The Board observed that recent North American standards use fair value as the basis for impairment testing goodwill, whereas the previous version of IAS 36 and the United Kingdom standard are based on an approach under which recoverable amount is measured as the higher of value in use and net selling price.

BC134 The Board also observed that goodwill acquired in a business combination represents a payment made by an acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised. Goodwill does not generate cash flows independently of other assets or groups of assets

and therefore cannot be measured directly. Instead, it is measured as a residual amount, being the excess of the cost of a business combination over the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Moreover, goodwill acquired in a business combination and goodwill generated after that business combination cannot be separately identified, because they contribute jointly to the same cash flows.[34]

34 In the second phase of its business combinations project, the Board revised the definition and measurement of goodwill in IFRS 3. See paragraph 32 and Appendix A of IFRS 3 (as revised in 2008).

BC135 The Board concluded that because it is not possible to measure separately goodwill generated internally after a business combination and to factor that measure into the impairment test for acquired goodwill, the carrying amount of goodwill will always be shielded from impairment by that internally generated goodwill. Therefore, the Board took the view that the objective of the goodwill impairment test could at best be to ensure that the carrying amount of goodwill is recoverable from future cash flows expected to be generated by both acquired goodwill and goodwill generated internally after the business combination.

BC136 The Board noted that because goodwill is measured as a residual amount, the starting point in any goodwill impairment test would have to be the recoverable amount of the operation or unit to which the goodwill relates, regardless of the measurement basis adopted for determining recoverable amount. The Board decided that until it considers and resolves the broader question of the appropriate measurement objective(s) in accounting, identifying the appropriate measure of recoverable amount for that unit would be problematic. Therefore, although the Board expressed concern over the measurement basis adopted in IAS 36 for determining recoverable amount, it decided that it should not depart from that basis when measuring the recoverable amount of a unit whose carrying amount includes acquired goodwill. The Board noted that this would have the added advantage of allowing the impairment test for goodwill to be integrated with the impairment test in IAS 36 for other assets and cash-generating units that include goodwill.

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Appendix B
Other possible alternative approaches for subsequent accounting for goodwill

Componentising goodwill and accounting for the components separately

B1. Goodwill comprises different components. If these components are separated out, different accounting treatments could be applied to each component. We could consider whether information provided would be improved if subsequent accounting for each goodwill component depended on the factors that constitute it (for example amortisation might be more appropriate for some components, than others, or it may be appropriate to write off some components immediately).

B2. Possible approaches for componentising are as follows:

(a) identifying the different types of components of goodwill. This may include some of the following components—synergies, assembled workforce, going concern element of the acquired business, overpayment by the acquirer, overvaluation of the consideration paid etc. Paragraphs BC313–BC318 of the Basis for Conclusions on IFRS 3 discuss these components in more detail.

(b) separating indefinite life components from finite life components.

(c) separating from the rest of goodwill any component of goodwill that represents a genuine overpayment or overvaluation.

B3. The key arguments for, and advantages of, considering this approach are as follows:

(a) investors are likely to benefit from more information about the different components of goodwill.

(b) looking at goodwill at a more granular level would help in determining a refined conceptual basis for subsequent accounting for goodwill. For example the amortisation method and period may be easier to determine for a component of goodwill.

B4. The key arguments for, and advantages of, not considering this approach are as follows:

(a) identifying and measuring separate components of goodwill would be a significant change to the existing requirements.

(b) determination of the components could be subjective and complex.

(c) if any components of goodwill can be recognised and measured separately, then one could argue that the acquirer did not diligently apply the requirements in IFRS 3 to recognise, separately from goodwill, the identifiable assets acquired and the liabilities assumed.

(d) in relation to overpayment, the Board had already considered the issue when replacing IAS 22 with IFRS 3 in 2004 and when revising IFRS 3 in 2008. The Board concluded that in practice it is not possible to identify and reliably measure an overpayment at the acquisition date. The staff is not aware of any developments in practice to measure overpayment.

(e) some investors do not think goodwill has relevance and they ignore goodwill and amortisation of goodwill in their analysis. It would be difficult to justify the cost of asking preparers to spend time disaggregating goodwill down into its components if investors ignore the information provided.

(f) in a 2014 Discussion Paper, the EFRAG/OIC/ASBJ Research Group explored a 'discernible elements approach' (ie separating goodwill into different components). The EFRAG/OIC/ASBJ Research Group concluded that it would be impracticable to implement, although it has conceptual merits. In particular, such an approach was considered difficult to apply in practice because it requires a great deal of judgement to identify the discernible elements.

Staff view

B5. The staff think there needs to be a strong argument to support making significant changes to IFRS 3. This approach would result in significant changes and could increase complexity and subjectivity. The staff think the overall objective of looking at subsequent accounting for goodwill is to consider how the costs of the current accounting treatment can be reduced without losing the information that is

currently being provided. The staff does not think this approach is consistent with the objective. Furthermore, on the basis of the discussion at the September 2015 joint meeting of the Board and the FASB, feedback from the Post-implementation Review (PIR) of IFRS 3 and the work performed by the EFRAG/OIC/ASBJ Research Group, the staff has not identified much support among stakeholders for the Board to consider this approach.

B6. The staff support the arguments set out in paragraph B4 for not considering this approach and do not recommend that the Board consider this approach any further.

Immediate write-off of goodwill on initial recognition

B7. The Board could consider allowing goodwill to be written-off immediately on initial recognition either in:

(a) profit or loss;

(b) other comprehensive income; or

(c) directly in equity (with or without ‘recycling’ on subsequent disposal or impairment).

B8. The key arguments for, and advantages of, considering this approach are as follows:

(a) concerns about cost, complexity and subjectivity in subsequent accounting for goodwill would be largely eliminated.

(b) some investors think that goodwill has no relevance after the date of acquisition and they ignore goodwill and amortisation of goodwill in their analysis. Some investors think that the residual measurement of goodwill makes it a plug and not an asset.

(c) the earliest versions of IAS 22 allowed an entity to adjust goodwill against shareholders’ interest immediately on acquisition. The basis for allowing this option was that some argued that goodwill is not an independently realisable asset, that it has an indeterminate life for which any amortisation programme is arbitrary, and that, as self-generated goodwill is not recognised, it is inappropriate to

recognise goodwill arising on acquisition. Accounting Standards in some countries also allowed goodwill to be immediately adjusted against shareholders' interest, together with additional disclosure of the amounts that would have been presented in the financial statements if goodwill was recognised as an asset (such as carrying amount of goodwill, its expected useful life, amount of amortisation, impairment loss, if any, etc).

B9. The key arguments for, and advantages of, not considering this approach are as follows:

(a) as explained in paragraphs 8–14, goodwill is an asset. Writing off goodwill undermines the Board's conclusions in IFRS 3. Immediate write-off of goodwill will imply that the amount is worthless and an overpayment.

(b) writing off goodwill immediately, particularly in profit or loss, would have a significant effect on an entity's financial position and performance, distributable profits, key ratios and compliance with debt covenants. Furthermore, writing off goodwill to equity is inconsistent with the requirement that only transactions with owners in their capacity as owners should only be recognised directly in equity.

(c) those users of financial statements who use the information of goodwill and impairment to assess management's stewardship, and those who include goodwill and unamortised amounts of intangibles in invested capital for calculating return on invested capital, will not support this approach.

(d) in developing FRS 10 *Goodwill and Intangible Assets* in 1997, the UK Accounting Standards Board (ASB) removed the option to write off goodwill directly against reserves at the acquisition date. This option was removed primarily because the ASB took the view that there should only be a single method for accounting for goodwill, and because the option attracted criticism and was becoming less accepted

internationally. The ASB was also influenced in particular by arguments that[2]:

(i) a method requiring elimination against reserves would treat goodwill very differently from brands and similar intangible assets. Given that such assets are similar in nature to goodwill and that the allocation of a purchase cost between the two can be subjective, it would be possible for a reporting entity's results to be shown in a more favourable light merely by classifying expenditure as an intangible asset rather than goodwill or vice versa.

(ii) Immediate elimination of goodwill against reserves fails to demonstrate management's accountability for goodwill as part of the investment in an acquired business. The goodwill is not included in the assets on which a return must be earned and no charge would be made in profit or loss if the value of the goodwill were not maintained.

Staff view

B10. As noted in paragraph B5, the staff think there needs to be a strong argument to support making further significant changes to IFRS 3. This approach would result in significant changes. Furthermore, on the basis of the discussion at the September 2015 joint meeting of the Board and the FASB, feedback from the PIR of IFRS 3 and the work performed by the EFRAG/OIC/ASBJ Research Group, the staff has not identified much support for the Board to consider this approach.

B11. The staff support the arguments set out in paragraph B9 for not considering this approach and do not recommend that the Board consider this approach any further.

[2] See paragraphs 2 and 16 of Appendix III to FRS 10 (1997) *Goodwill and Intangible Assets*