IFRS

STAFF PAPER

April 2018

IASB® Meeting

Project	**Goodwill and Impairment research project**
Paper topic	Recent feedback from CMAC and GPF

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Purpose

1. The purpose of this paper is to update the Board on recent feedback from the Capital Markets Advisory Committee (CMAC) and the Global Preparers Forum (GPF).

Background and introduction

2. At the March 2018 meetings of CMAC and GPF, the staff sought feedback on:
   (a) the staff proposal about the approach to the impairment testing of goodwill that considers movements in headroom (the headroom approach). Headroom is the excess of the recoverable amount of a cash-generating unit (or groups of units) over the carrying amount of that unit.
   (b) the requirement in IFRS 3 *Business Combinations* to recognise all identifiable intangible assets acquired in a business combination separately from goodwill, specifically whether:
      (i) recognising all identifiable intangible assets separately from goodwill provides useful information.
      (ii) the reason for investors' concerns about credibility of fair value of recognised intangible assets is insufficient

disclosure—and whether the concerns could be resolved by improving disclosure about the valuation methodology and inputs used in valuing the intangible assets.

(iii) there are ways of allowing some identifiable intangible assets to be included within goodwill without losing relevant information.

3. See Agenda Paper 4 of the CMAC meeting and Agenda Paper 4 of the GPF meeting.

Headroom approach

Feedback from CMAC

4. In November and December of 2017, the staff had one-to-one calls with 11 CMAC members to discuss the headroom approach. At the March 2018 meeting, the CMAC members were provided with a summary of the feedback received during the calls and were asked to provide any incremental feedback. Paragraphs 5–10 summarise the feedback received both during the calls and at the March 2018 meeting.

5. A majority of CMAC members supported the headroom approach. One of the important aspects of the headroom approach that garnered support from CMAC members was that it could remove the shielding effect that is created by internally-generated goodwill in the current impairment testing requirements. That shielding effect arises because, in current requirements, any decrease in total headroom is attributed first to unrecognised internally-generated goodwill; an impairment loss is recognised on acquired goodwill only if the value of unrecognised internally-generated goodwill has first been entirely eliminated by a decrease in total headroom.

6. Some members supported the Board's idea of requiring disclosure of the basis of attributing the decrease in total headroom between acquired goodwill and unrecognised headroom. Those members thought that such disclosure would provide useful information to investors.

7. Some members indicated a preference for disclosure of headroom instead of using the headroom approach for impairment testing. However, those members thought that companies are likely to apply a disclosure-only requirement less rigorously than if they have to use the headroom for impairment testing purposes.

8. The headroom approach contains a presumption that a company would attribute all of any decrease in total headroom to acquired goodwill. However, a company could rebut the presumption if there is evidence that all or part of the decrease should instead be attributed to unrecognised headroom. One member cautioned the staff that a rebuttable presumption could lead to decreases in total headroom being attributed to acquired goodwill even if the decrease was caused by reasons not connected to the acquired goodwill.

9. Some members suggested reintroducing amortisation of goodwill.

10. One member thought that, instead of pursing any of the approaches mentioned by the staff, the Board should consider requiring:

    (a) further componentisation of goodwill on initial recognition; and

    (b) depending upon the nature of the component, either amortising the component, writing it off against equity or only testing it for impairment.

Feedback from GPF

11. GPF was asked to provide feedback specifically on the nature and extent of costs that might have to be incurred in applying the headroom approach.

12. Most members said that the headroom approach is likely to add significant costs to the impairment testing of goodwill, and consequently did not support the headroom approach. They said that the costs would arise for two reasons:

    (a) currently, companies generally do not perform a detailed calculation of recoverable amount if, on the basis of estimates, averages and computational short cuts, it is clear that the recoverable amount would be sufficiently higher than the carrying amount of the cash-generating unit (or groups of units). However, to use the headroom approach, a more precise measurement of recoverable amount would be required every year.

(b) the headroom approach contains a presumption that a company would attribute all of any decrease in total headroom to acquired goodwill. However, a company could rebut the presumption if there is evidence that all or part of the decrease should instead be attributed to unrecognised headroom. Rebutting the presumption would cause significant incremental debate with auditors and would also attract questions from regulators.

13. Some members said that there would be costs involved in tracking actual performance against the assumptions made in analysing the factors that support the consideration paid for the business combination.

14. One member supported the headroom approach but thought that, if goodwill acquired in a business combination is allocated to an existing cash-generating unit (or groups of units), any subsequent decrease in total headroom should not be attributed to the acquired goodwill so long as the unrecognised headroom is in excess of the unrecognised pre-combination headroom.

15. Two members said that they do not support the headroom approach because, in addition to concerns about costs of applying the approach, they questioned the conceptual basis for the approach.

16. One member said that investors seem to prefer disclosure of segment information on acquisitions that would help them assess the success of those acquisitions rather than relying on the amount of goodwill impairment loss recognised. Therefore, that member suggested that the Board should consider requiring such disclosure instead of pursuing the headroom approach.

17. Another member said that introducing the headroom approach would create an inconsistency with the prohibition in IAS 36 *Impairment of Assets* on reversal of impairment losses for goodwill. The headroom approach attributes part or all of a decrease in total headroom to acquired goodwill, but the prohibition in IAS 36 means that no part of any subsequent increase in total headroom can be attributed to acquired goodwill.

Recognising all identifiable intangible assets acquired in a business combination

Feedback from CMAC

18. In relation to whether useful information is provided by the recognition of all identifiable intangible assets separately from goodwill:

    (a) one member supported the existing requirement in IFRS 3 as providing useful information to investors.

    (b) another member said that identifying and valuing some of the intangible assets is extremely judgemental. Because of this, that member does not believe that separate recognition of those intangible assets provides useful information. That member also views a business combination as a type of transaction different from purchase of assets.

    (c) one member said that recognising only those intangible assets for which there is an active market provides useful information because a reliable measure of fair can be obtained.

    (d) some members with experience covering the banking sector said that they ignore intangible assets acquired in a business combination because regulatory capital requirements require those intangible assets to be deducted from equity in determining regulatory capital.

    (e) some members said that they were indifferent between recognising and not recognising identifiable intangible assets. An investors' assessment of whether an acquisition increases value or diminishes value, and of whether the investor should invest in any capital-raising to fund the acquisition, is made when the acquisition is announced, at which time detailed information about values of intangible assets acquired is generally not available.

19. The discussion by members did not produce a clear view about whether the investors' concerns about credibility of fair value of recognised intangible assets would be resolved by improving disclosure about the valuation methodology and inputs used in valuing the intangible assets.

20. In relation to possible ways of allowing some identifiable intangible assets acquired in a business combination to be included within goodwill without losing relevant information:

    (a) one member did not support allowing any identifiable intangible assets to be included within goodwill.

    (b) one member thought that an acquiring entity should recognise only those intangible assets that have already been recognised as assets by the acquired entity, and should include all other identifiable intangible assets within goodwill.

    (c) in relation to one of the possible approaches being investigated by the staff, one member supported segregating intangible assets into wasting assets and organically-replaced assets, and requiring recognition of only wasting intangible assets acquired in a business combination. That member's preference was based on the view that amortisation of wasting intangible assets provides useful information about potential future cash outflows required for replacing those assets. On the other hand, some members discouraged this approach because they thought that assessing whether an intangible asset is a wasting asset or an organically-replaced asset would be very subjective.

    (d) in relation to another possible approach being investigated by the staff, one member with experience covering the banking sector thought that allowing indefinite-lived intangible assets to be included within goodwill is not worth pursuing. That is because that member did not observe many indefinite-lived intangible assets being recognised in acquisitions, and consequently, felt that this approach may not result in saving costs for preparers.

Feedback from GPF

21. Most members supported the current requirement in IFRS 3 to recognise all identifiable intangible assets, for various reasons:

    (a) one member said that the current requirement helps a company better explain the assets that it has acquired.

(b) another member said that the current requirement permits separate recognition of intangible assets that are not very different from goodwill, such as brands, and amortising those intangible assets. This takes some pressure off testing goodwill for any impairment.

22. One member said that separate recognition of indefinite-lived intangible assets does not provide useful information.

23. In relation to whether valuing some intangible assets, such as brands and customer relationships, is costly and complex, some members said that valuing identifiable intangible assets acquired in a business combination is not costly because it is a one-off activity and companies have access to valuation service providers and valuation models.

24. In relation to possible ways of allowing some identifiable intangible assets to be included within goodwill without losing relevant information, most GPF members did not support any of the possible approaches identified by the staff.

25. One member supported the idea of allowing indefinite-lived intangible assets acquired in a business combination to be included within goodwill, but said that they should be recognised separately if they are already generating independent cash flows.

26. One member expressed opposition to requiring disclosures similar to those in IFRS 13 *Fair Value Measurement* for intangible assets acquired in a business combination.