Staff paper

Agenda reference: 18B

IASB® meeting

Date	**October 2022**
Project	**Goodwill & Impairment**
Topic	**Subsequent accounting for goodwill – Possible ways forward**
Contacts	**Tim Craig** (tcraig@ifrs.org)

Purpose and Structure

1. The purpose of the paper is to set out the possible ways forward on the International Accounting Standards Board (IASB)'s preliminary view in its Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* to retain the impairment-only model for the subsequent accounting for goodwill and principal arguments in support of those alternatives. Those alternatives include:

   (a) exploring reintroduction of amortisation of goodwill;[1] or

   (b) confirming the preliminary view to retain the impairment-only model.

2. The paper is structured as follows:

   (a) Background (paragraphs 3–9);

   (b) Exploring the reintroduction of amortisation[2] (paragraphs 10–41);

   (c) Retaining the impairment-only model (paragraphs 42–71);

   (d) Other considerations (paragraphs 72–77); and

   (e) Other matters to consider if the reintroduction of amortisation is explored (Appendix).

Background

3. The IASB's research project Goodwill and Impairment was a response to the Post-implementation Review (PIR) of IFRS 3 *Business Combinations*.

4. As discussed at the IASB's September 2022 meeting, a PIR focuses on whether new requirements, in this case those in IFRS 3, are working as intended. The IASB takes action if there is evidence that:

[1] We have described this as 'exploring' because if the IASB did decide to propose reintroducing amortisation of goodwill it would first need to decide on the details of the amortisation model and therefore reintroduction of amortisation would be subject to agreement of that model. The Appendix lists some of the detailed matters the IASB would need to consider.
[2] The reintroduction of amortisation or an amortisation-based model refers to a model that includes amortisation of goodwill and an impairment test.

(a) there are fundamental questions about the clarity and suitability of the core objectives or principles in the new requirements;

(b) the benefits to users of financial statements (users) of the information arising from applying the new requirements are significantly lower than expected; or

(c) the costs of applying some or all of the new requirements and auditing and enforcing their application are significantly greater than expected.

5. Given the context, the question about whether to retain the impairment-only model for goodwill or to reintroduce amortisation of goodwill is a decision about whether evidence gathered since IFRS 3 was issued (during the PIR and this project) provides a compelling case for changing the model to account for goodwill. It is not a decision about which of those models is better, as if the IASB were introducing the requirements for the first time. The IASB, in issuing IFRS 3 in 2004, decided at the time that the impairment-only model is the most appropriate way to account for goodwill. This is why the IASB, in the Discussion Paper, asked respondents to provide new evidence or arguments that have emerged since 2004 and whether reintroducing amortisation of goodwill would resolve some of the concerns the IASB heard during the PIR of IFRS 3.[3]

6. The remainder of the paper sets out the possible ways forward—that is, exploring the reintroduction of amortisation or retaining the impairment-only model and the principal arguments for each alternative. At this stage we are not recommending any one of these alternatives.

7. In setting the arguments out for the two alternatives, we have placed weight on particular arguments or interpreted feedback in a particular way so as to outline the support for the different models. This is for illustrative purposes only. At this stage we have not analysed the relative merits of the different arguments with a view to arriving at a staff recommendation. We intend to perform this analysis and develop a recommendation for the IASB to consider at a future meeting. Our analysis and recommendation will consider any feedback we receive from IASB members at this meeting.

8. In the Discussion Paper, the IASB considered and rejected two other approaches for accounting for goodwill:

(a) immediate write-off of goodwill, primarily because this would be inconsistent with the IASB's conclusion that goodwill is an asset; and

(b) separating goodwill into components and accounting for the components separately, because, for example, it would increase the complexity and subjectivity of the subsequent accounting for goodwill.

9. Although a few respondents to the Discussion Paper suggested these approaches, we think convincing arguments to change the IASB's views in the Discussion Paper have not been provided (see also

[3] See questions 7(b) and 7(c) in the Discussion Paper.

Agenda Paper 18D of the IASB's July 2021 for further analysis of these and other approaches suggested by respondents to the Discussion Paper). Therefore, these approaches have not been considered in this paper.

Exploring the reintroduction of amortisation

10. The IASB could choose to explore the reintroduction of amortisation for some or all of the reasons set out in this section.

11. The core reason for exploring the reintroduction of amortisation is there is evidence from the PIR of IFRS 3 and from many respondents to the Discussion Paper who favour the reintroduction of amortisation of goodwill, that suggests the impairment test is not working as intended.

12. Paragraph 3.58 of the Discussion Paper explains:

> 3.58 The Board's decision in 2004 to implement an impairment-only model for goodwill was based on the conclusion that this approach would provide more useful information to investors than an amortisation and impairment approach, and that the impairment test would be rigorous and operational. Some stakeholders say the feedback from the PIR of IFRS 3, and the findings of the Board's research project, call those conclusions into question because:
>
> (a) impairment losses are not recognised on a timely basis, in the view of those stakeholders. Thus, the impairment test may not be as rigorous as the Board initially expected it to be.
>
> (b) although some stakeholders believe the impairment test provides useful information, its value is limited, often only being confirmatory and the information is provided too late to have predictive value.
>
> (c) the impairment test is complex and costly to perform. Thus, the impairment test may not be as operational as the Board had expected it to be.

13. An academic study[4] on US generally accepted accounting principles (US GAAP) documented negative share price returns up to 12 quarters before an impairment loss announcement implying that impairment losses on goodwill may not be timely. In the researcher's view, comparing results before and after the adoption of Statement of Financial Accounting Standards (SFAS) No. 142 *Goodwill and Other Intangible Assets*[5] indicated impairment losses on goodwill were larger and less timely in the post-SFAS 142 period.

---

[4] Li, K. K. and Sloan, R. G. (2017), 'Has Goodwill Accounting Gone Bad?', *Review of Accounting Studies*, 22 (2), 964-1003.
[5] SFAS No. 142 eliminated periodic amortisation of goodwill and replaced it with an impairment-only model whereby goodwill is tested at least annually for impairment.

14. Respondents to the Discussion Paper said goodwill balances are high and although there may be many reasons for this, the adoption of the impairment-only model is part of the reason. Respondents also referred to the high 'implied useful life' of goodwill in various studies as evidence that the impairment test is not working.[6]

15. Some respondents said that this practical evidence the impairment test is not working is new evidence the IASB should consider when assessing whether there is compelling evidence to reintroduce amortisation. Although the IASB may have been aware of the shielding issue when issuing IFRS 3, it may not have been aware of the extent of the effect of shielding.[7]

16. Paragraph BC197 of the Basis for Conclusions on IAS 36 *Impairment of Assets* says:

> …
>
> The Board observed that, given current trends in 'big bath' restructuring charges, the greater risk to the quality of financial reporting might be from entities trying to write off goodwill without adequate justification in an attempt to 'manage' the balance sheet
>
> ...

17. This paragraph indicates that the IASB was less concerned about impairment losses being recognised too late. Feedback from the PIR of IFRS 3 and from the Discussion Paper about impairment losses on goodwill not being recognised on a timely basis provides new evidence suggesting that this is now a bigger concern.

18. Academic evidence suggests that managements' decisions to allocate smaller or larger portions of the purchase price to goodwill are influenced by contracting and compensation incentives, such as a desire to maximise post-acquisition earnings or bonuses. There is also academic evidence suggesting that the recognition of impairment losses on goodwill vary with management incentives (see paragraphs 70–78 of Agenda Paper 18F to the May 2021 Board meeting).

19. The IASB's decision to adopt the impairment-only model was dependent on devising a rigorous and operational impairment test and the IASB, in revising IAS 36 and issuing IFRS 3, concluded that a sufficiently rigorous and operational impairment test could be devised. The evidence suggests the test is not working as intended and, therefore, in the context of a PIR, a change to IFRS Accounting Standards is justified.

---

[6] 'Implied useful life' in these studies is generally calculated by dividing carrying amounts of goodwill by annual impairment losses.

[7] Goodwill is tested for impairment as part of a cash-generating unit or group of cash-generating units. The amount by which the recoverable amount of the cash-generating unit exceeds the carrying amount of its recognised net assets can shield acquired goodwill against impairment. Items such as internally generated goodwill that is already present in the acquirer's business at the date of the business combination or subsequently generated internally generated goodwill can contribute to this shielding.

20. The consequences of the impairment test not working as intended and therefore the objective of exploring the reintroduction of amortisation follows one of two broad lines of argument:

    (a) Improving information—an amortisation-based model better reflects the nature of goodwill, can provide more useful information and helps hold management to account better than the impairment-only model has. Amortisation will prevent the overstatement of goodwill balances. The IASB's amended preliminary views on improvements to disclosures about business combinations is not a sufficient response to the concerns that the impairment test is not working (paragraphs 22–32).

    (b) Reducing costs—an amortisation-based model is a simpler, less costly approach to accounting for goodwill and evidence suggests that a cost-benefit analysis of the impairment-only model would not support its introduction today. The IASB's amended preliminary views on improvements to the disclosures about business combinations, which will provide users information about the subsequent performance of business combination and help hold management accountable, allows for a simpler, less costly approach to accounting for goodwill to be adopted which could better balance the cost-benefits of the package of proposals resulting from this project (paragraphs 33–41).

21. We have therefore split the arguments into these two broad categories, although we recognise there could be some overlap between them. As discussed at the September 2022 Joint IASB–FASB meeting (see paragraphs 22–27 of Agenda Paper 18A to this meeting), it is important to understand the objective for exploring the reintroduction of amortisation because this is likely to drive different models for the amortisation of goodwill (see also paragraphs 74–77).

Improving information

22. Improving disclosures on the subsequent performance of business combinations and other proposals in the Discussion Paper would not be a sufficient response to concerns that the impairment test is not working which is essentially a measurement issue. One user organisation said the impairment test is not trusted and another said shortcomings in the test reduce the usefulness of financial statements. One accounting body said a structural deficiency (shielding) in the test has been highlighted, causing not only overstatement of goodwill, but also harming the relevance of financial information.

23. Given increasing merger and acquisition (M&A) activity and increasing goodwill balances, there is an increased risk of overstating goodwill balances because of the limitations of the impairment test. One respondent to the Discussion Paper said there is also an increased need for accountability because of this growth in M&A activity, entities entering into more 'intangible-heavy' acquisitions and a greater incidence of earnings-related executive pay models. In this respondents' view, the impairment-only model was inferior to an amortisation-based model at ensuring accountability.

24. Reintroducing amortisation of goodwill would appropriately respond to the limitations of the impairment test that have been identified. These limitations mean that there is an insufficient amount of expense being recognised in the Income Statement on a timely basis. This is particularly a concern for those stakeholders who consider goodwill to be a wasting asset with a determinable life.

25. Many respondents to the Discussion Paper, and most preparers, favouring reintroducing amortisation said goodwill is a wasting asset. In their view, the value of goodwill diminishes over time due to competition, technological factors or, as one accounting firm said, because the benefits of synergies are realised as businesses are combined, or an acquiree's skilled workforce leave or retire. In their view amortisation allocates the cost of acquired goodwill over the periods in which it is consumed, and some respondents said this matches the cost with the benefits it relates to.

26. A group of academics also provided a summary of the academic literature in economic disciplines. The academic studies highlighted suggested that:

    (a) in the absence of barriers to entry, competitive advantage will erode over time;

    (b) sustained competitive advantage is based on intangible assets and people-dependent capabilities rather than on tangible assets, and durable sustainable competitive advantage is only possible under very specific circumstances; and

    (c) persistence of abnormal earnings—earnings that exceed the expected return—is limited to a period of 3 to 20 years and competitive forces reduce the persistence of abnormal earnings.

27. In deciding to adopt an impairment-only model, the IASB acknowledged that if goodwill is an asset, it must be true that goodwill acquired in a business combination is being consumed but observed that the useful life of acquired goodwill and the pattern in which it diminishes are not generally possible to predict. As a result, the amortisation expense in any given period can be described, at best, as an arbitrary estimate of the consumption of acquired goodwill during that period.

28. Many respondents answering question 7(f) in the Discussion Paper[8] said the useful life of goodwill should be based on management's estimates, suggesting that they consider a reliable estimate of the useful life of goodwill can be made. Some respondents also said an amortisation-based model could provide useful information, for example managements' judgements about the useful life of goodwill could provide useful information about managements' expectations of the period over which an entity expects to realise benefits associated with goodwill. The research in paragraphs 30–41 of Agenda Paper 18A further explains how those preparers who said a reliable estimate of the useful life of goodwill can be made would make those estimates. This would mean that the resulting amortisation

[8] Question 7(f) of the Discussion Paper asked 'If you favour reintroducing amortisation of goodwill, how should the useful life of goodwill and its amortisation pattern be determined? In your view how would this contribute to making the information more useful to investors?'

expense would not be arbitrary and could provide useful information. The recent research performed by the UK Endorsement Board also supports this view.

29. Hence feedback from respondents suggesting a reliable estimate of the useful life of goodwill can be made and that amortisation could provide useful information, challenges the conclusions of the IASB in 2004 (paragraph 27).

30. Amortisation directly targets acquired goodwill and is unaffected by shielding. The resulting expense would hold management to account better than an impairment-only model—management would need to demonstrate that the business combination is generating sufficient earnings to cover this expense, an expense that should match the benefits being generated by the goodwill. As a few stakeholders mentioned, this will better reflect the performance of the entity. Academic evidence in paragraph 18 demonstrates that an impairment-only model could help management avoid being held to account.

31. Because an amortisation-based model would still require goodwill to be tested for impairment, the impairment test would still provide useful information in the earlier years of the business combination. In later years, although amortisation would ultimately remove goodwill from the Statement of Financial Position, its removal would not cause a loss of useful information. This is because it may occur at a time when any impairment loss recognised under the impairment-only model would provide little or no information about the performance of the business combination because it is now indistinguishable from the rest of the business (paragraph 3.67 of the Discussion Paper).

32. In summary, arguments in favour of reintroducing amortisation to improve information include:

    (a) The impairment test is not working as intended—the IASB's decision to move to the impairment-only approach was contingent on a sufficiently rigorous and operational impairment test and evidence suggests it is not—this is the compelling case for change;

    (b) Goodwill is a wasting asset (the IASB acknowledges this in the Basis for Conclusions on IAS 36). There is now evidence that it is feasible for entities to make reliable estimates of the useful life of goodwill and an amortisation expense based on the useful life of goodwill can provide useful information;

    (c) Amortisation would result in recognising an expense in the Income Statement that would reflect consumption of the benefits associated with the goodwill;

    (d) Amortisation can hold management to account better than the impairment-only model;

    (e) Unlike the impairment-only model, amortisation would directly target goodwill; and

    (f) Disclosure should not be a tool to solve what is essentially a measurement issue—that is, limitations of the impairment test.

Reducing costs

33. As explained in paragraph 12, although the IASB in developing IFRS 3 considered the impairment-only model to be the conceptually better approach, and expected the approach to provide more useful information, feedback received when developing the Discussion Paper and in response to the Discussion Paper highlights significantly 'better' information has not been seen in practice, and the information provided by the impairment-only model is at best confirmatory. Feedback from the PIR of IFRS 3 highlighted the cost and complexity of the impairment test.

34. Some academic evidence suggests that the value relevance of goodwill and the ability of goodwill to predict future cash flows increased after the introduction of the impairment-only model. However, two studies[9] suggest that the introduction of the impairment-only model neither increased nor decreased the information content of impairment losses on goodwill. This therefore questions whether the high cost of the impairment test is justified.

35. There are also academic studies that suggest reintroducing amortisation would not reduce the information provided by the impairment-only model and is therefore not contrary to the project's objective. Because an impairment test would continue to be required and because information associated with impairment losses on goodwill reduces over time (according to some respondents to the Discussion Paper and one academic study[10]), it is likely that under an amortisation-based model, the impairment test in the initial years following an acquisition would continue to provide the most useful information that is provided today when applying the impairment-only model. This further questions whether the benefits of the impairment-only model justify the cost of the model.

36. Users have said they want to understand whether a business combination has been successful. IFRS 3 does not specifically require disclosure of information about the subsequent performance of a business combination. Nevertheless, limited information may come from impairment losses and the impairment test. However, the objective of the impairment test of cash-generating units containing goodwill is to ensure the combined assets of a cash-generating unit or group of cash-generating units including goodwill are carried at no more than their combined recoverable amount. The impairment test cannot inform users whether a business combination is meeting management's objectives for the business combination (paragraph 2.6 of the Discussion Paper).

37. The IASB's tentative decisions related to disclosing information about the subsequent performance of business combinations (see paragraphs 57–61 of Agenda Paper 18A) aim to provide users with direct information about the success of a business combination (paragraph IN36 of the Discussion Paper).

---

[9] Li, Z., Shroff, P. K., Venkataraman, R., and Zhang, I. X. (2011), 'Causes and Consequences of Goodwill Impairment Losses', *Review of Accounting Studies*, 16 (4), 745-78 and Bens, D. A., Heltzer, W., and Segal, B. (2011), 'The Information Content of Goodwill Impairments and SFAS142', *Journal of Accounting, Auditing & Finance*, 26 (3), 527-55.

[10] Bugeja, M. and Gallery, N. (2006), 'Is Older Goodwill Value Relevant?', *Accounting & Finance*, 46 (4), 519-35.

38. Hence, feedback and evidence highlight that information provided by the impairment-only model is limited and the impairment test is costly and complex. Information about the success of a business combination will be provided by the amended preliminary views of the IASB. It is therefore questionable whether the impairment-only model would meet a cost-benefit assessment. This is the compelling case for change.

39. The IASB could therefore reintroduce amortisation of goodwill for more practical reasons such as reducing costs and complexity associated with the subsequent accounting for goodwill because:

    (a) amortisation would take pressure off the impairment test and, at the end of the useful life of goodwill, an impairment test would no longer be required.

    (b) reintroducing amortisation could allow further simplifications to the impairment test. For example, although most respondents commenting on the IASB's preliminary view to remove from IAS 36 the requirement for an entity to perform a mandatory annual quantitative impairment test of cash-generating units containing goodwill disagreed, many of these respondents said an indicator-only approach could be introduced if amortisation of goodwill is reintroduced. This would also mean the impairment testing for cash-generating units containing goodwill would be consistent with that for other tangible and intangible assets that are subject to depreciation or amortisation.

40. Deciding to reintroduce amortisation would help reduce the cost of the package of amendments the IASB might propose as a result of this project (including the proposed disclosures about the subsequent performance of business combinations) and of the overall requirements for business combinations.

41. In summary arguments in favour of reintroducing amortisation to reduce costs include:

    (a) The impairment test is not providing as useful information as the IASB expected when it issued IFRS 3.

    (b) The impairment test is costly and complex.

    (c) The IASB's amended preliminary views should provide users directly with better information about the subsequent performance of business combinations than the impairment test could ever provide.

    (d) An amortisation-based model could be simple and can reduce the cost of the package of any amendments the IASB proposes as part of this project. This would allow the IASB to conclude that the package of proposed amendments meets the project objective—to provide users with useful information about business combinations at a reasonable cost.

Retaining the impairment-only model

The impairment test is meeting its objective

42. The IASB included a section in the Discussion Paper explaining the purpose of the impairment test (see paragraphs 3.12–3.19 of the Discussion Paper).

43. Paragraphs 3.13–3.14 of the Discussion Paper explain:

> 3.13 The objective of the impairment test in IAS 36 is to ensure that a company's assets are carried at no more than their recoverable amounts.
>
> 3.14 Goodwill does not generate cash inflows independently. Thus, the impairment test focuses on the cash-generating unit, rather than the individual asset—the appropriate approach when an asset does not generate largely independent cash inflows but jointly contributes to the generation of future cash flows with other assets. This focus on the cash-generating unit is consistent with the Board's conclusion in developing IFRS 3 that goodwill is measured as a residual because it cannot be measured directly.

44. There are some academic studies that suggest the test is meeting its objective. For example, studies providing evidence that the determinants of impairment losses on goodwill are related to underlying economic fundamentals (see paragraphs 70–78 of Agenda Paper 18F to the IASB's May 2021 meeting) and evidence that the decision usefulness of goodwill increased after the introduction of the impairment-only model (see paragraphs 31–38 of Agenda Paper 18F to the IASB's May 2021 meeting).

45. The use of a cash-generating unit is a core principle of impairment testing in IAS 36. When developing the Discussion Paper, the IASB explored the possibility of designing a different impairment test to resolve the shielding issue but its preliminary view was that it was not feasible to do this at a reasonable cost. Most respondents to the Discussion Paper agreed with this view.

46. Therefore, without performing a fundamental review of IAS 36 and of the cash-generating unit concept, which is not in the scope of this project, testing goodwill—an asset that does not generate cash inflows independently and that cannot be directly measured—as part of a group of cash-generating units remains the best test available (although also see paragraphs 72–73).

47. Expectations that the impairment test can directly test goodwill, which cannot be directly measured, are misplaced and arguments that the impairment test is not working as expected may be based on a misunderstanding or an unrealistic expectation of what the impairment test is designed to achieve. For example, stakeholders might regard the impairment test as not working because it is not reflecting the consumption of goodwill (since they view goodwill as a wasting asset). However, the impairment test is not designed to reflect consumption of an asset but to test the value of an asset (or cash-generating units).

48. Further, as paragraphs 3.75–3.79 of the Discussion Paper explain, the IASB was aware of shielding when issuing IFRS 3 and concluded then that no impairment test can discern whether pre-existing internally generated goodwill, rather than the acquired goodwill, has been impaired and replaced by goodwill generated after an acquisition. The IASB, at that time, accepted that shielding is inevitable in an impairment test of cash-generating units containing goodwill. Hence evidence of the effect of shielding is not unexpected.

49. Some respondents to the Discussion Paper also remained unconvinced there is a significant problem with the impairment test. In their view optimism is natural and oversight from auditors and regulators, and safeguards in IAS 36 (for example, the requirement to use reasonable and supportable assumptions) help counter any over-optimism. They also said shielding is inevitable, and is inappropriate only when goodwill is not allocated properly to cash-generating units. Some regulators said lack of compliance with the requirements (for example, management over-optimism) in applying the impairment test is not compelling evidence to reintroduce amortisation.

50. Some respondents, favouring the reintroduction of amortisation, said goodwill balances are too high—which they consider to be evidence the impairment-only model is not working. However, it is difficult to draw definitive conclusions from this evidence. To claim that goodwill balances are 'too' high requires developing an expectation of the 'correct' goodwill balance. This is difficult because goodwill is not directly observable. Therefore it is difficult to determine how significant an issue high goodwill balances are and what conclusions to draw from the quantitative evidence provided by respondents. For example, one national standard-setter responding to the Discussion Paper said their research (which compared changes in the goodwill balances with changes in market capitalisation of the entities) showed that goodwill balances had not fluctuated as much as they had expected despite significant changes in market conditions since 2005. However, a consultant, also responding to the Discussion Paper, reviewing impairment losses in the same jurisdiction concluded that major macroeconomic events consistently impact goodwill impairment trends demonstrating, in their view, that the current goodwill impairment test works as anticipated.

51. The UK Endorsement Board's research (see paragraphs 47–56 of Agenda Paper 18A) highlighted an increase in carrying amounts of goodwill of 78% since 2005 in their jurisdiction. However, the research also showed that the carrying amount of goodwill remained broadly constant as a proportion of total assets.

52. There could be various reasons why goodwill balances might be high, for example:

    (a) low interest rates stimulating M&A activity;

    (b) general growth in global economies;

    (c) an extended period of consolidation amongst global entities; and

    (d) acquisitions involving increasingly intangible-based entities.

53. Overall increasing goodwill balances are not compelling evidence that the impairment test is not working as intended (see paragraphs 17–27 of Agenda Paper 18D to the IASB's July 2021 meeting for further information).

There isn't a compelling case amortisation is needed to improve information

54. As discussed in paragraphs 3–5, the IASB should propose a change to the subsequent accounting for goodwill only if evidence gathered since IFRS 3 was issued (during the PIR and this project) provides a compelling case for change. This is particularly important because, as the IASB noted in the Discussion Paper (paragraph 3.86), frequent changes back and forth between the different approaches would not help stakeholders.

55. The arguments presented in support of both models continue to be strongly-held, divergent and have already been considered by the IASB. Although respondents to the Discussion Paper, and information collected subsequent to the Discussion Paper (see Agenda Paper 18A), have provided some new evidence to support particular arguments, the evidence remains mixed.

56. Conceptual arguments put forward to support reintroducing amortisation of goodwill are centred on the view that goodwill is a wasting asset and amortisation better reflects the consumption of the benefits represented by goodwill, providing useful information and holding management to account.

57. Although many respondents to the Discussion Paper favouring reintroducing amortisation said goodwill is a wasting asset (and evidence was provided to support these assertions), there were also many respondents agreeing with the Board's preliminary view to retain the impairment-only model that said goodwill generates economic benefits over an indefinite period. The pattern of these cash flows is one of continuous growth and amortising goodwill on a straight-line basis over an arbitrary number of years would undervalue the asset. One respondent said amortising goodwill would further disconnect the accounting from the reality of the transaction and the economic premise of the acquisition.

58. A few respondents referred to the International Valuation Standards Council's article *Is Goodwill a Wasting Asset?* which concluded that the majority of components included in goodwill are not wasting. A few respondents said that it is not clear goodwill is consumed over time, goodwill does not lose its value like other assets, and goodwill reduces in value due to events that do not usually occur consistently over time. Therefore goodwill is better measured by an impairment test.

59. Arguments that amortisation better holds management to account and can provide useful information appear to depend on the useful life of goodwill and the pattern in which it diminishes being reliably estimated. The evidence of whether a reliable estimate of the useful life of goodwill, and the pattern in which it diminishes, can be made is mixed. Although some respondents to the Discussion Paper said a reliable estimate can be made, some disagreed and said a reliable estimate cannot be made.

60. The additional research performed (see paragraphs 30–41 of Agenda Paper 18A) highlights that there is significant diversity in the factors and methods entities would use to estimate the useful life of

goodwill. Although that diversity might reflect the facts and circumstances of different business combinations, it could also reflect different views of what goodwill is or different preferences for different methods. This raises questions about how reliable those estimates would be.

61. Many stakeholders suggested specifying an upper limit for the useful life of goodwill (a cap) to reduce the risk of entities using excessively long useful lives, to improve comparability or as a practical solution in situations in which management cannot reliably estimate the useful life of goodwill. Many auditors said a cap would be necessary to make an amortisation model operable and auditable. The necessity of having a cap also questions how reliable those estimates would be.

62. Most auditors also said application guidance or illustrative examples would be needed to help them enforce the requirements on determining the useful life of goodwill. For example, they suggested clarifying the unit of account and providing guidance on the factors to consider and when to use different factors. One auditor said people have different views of what goodwill is and without application guidance diversity in practice will occur, and it will be difficult to challenge managements' judgements and entities might be able to manage earnings. However, providing such guidance would require the IASB to make conceptual decisions about the nature of goodwill.

63. Arguments that amortisation resolves concerns that impairment losses are not recognised on a timely basis are unconvincing. Some respondents to the Discussion Paper said amortisation would not mean impairment losses will be recognised on a more timely basis. In fact reintroducing amortisation would increase shielding and therefore make the situation worse.

64. It is also debatable whether reintroducing amortisation of goodwill would significantly improve financial reporting. Most academic studies identified in the project (see paragraph 104 of Agenda Paper 18A to the IASB's May 2022 meeting) suggest amortisation is not value relevant (its association with share prices and returns).

65. Users are split on whether to reintroduce amortisation of goodwill, with many users favouring reintroducing amortisation but many other users favouring retaining the impairment-only model. Most users favouring retaining the impairment-only model said amortisation provides no useful information and it will be ignored. Some users are ambivalent to this topic or have marginal views.

66. The conceptual debate of what is the most appropriate model for accounting for goodwill remains. There are valid views, supported by well thought out evidence, on both sides. These reflect different perspectives of the nature of goodwill and therefore the appropriate model for the subsequent accounting for goodwill. The evidence suggests that these views continue to be divergent and strongly held and are unlikely to be reconciled rather than suggesting a compelling case for change.

There isn't a compelling case reintroducing amortisation would reduce costs

67. It is debatable how less costly an amortisation-based model would be. A few respondents to the Discussion Paper said reintroducing amortisation would not significantly reduce cost. Several members

of the US Financial Accounting Standards Board (FASB), in deciding to deprioritise and remove from their agenda the project that considered the subsequent accounting for goodwill, questioned the magnitude of cost savings for preparers from the model (a model with a default amortisation period).

68. Convergence between IFRS Accounting Standards and US GAAP on this topic is important, as highlighted by the International Organization of Securities Commissions (IOSCO)'s public statement in February 2021 (see paragraph 18 of Agenda Paper 18A). Divergence would also result in additional costs for preparers and users. Convergence is also an important aspect of the benefits and costs considered in the effects analysis for IFRS 3 (see paragraph BC 436 of the Basis for Conclusions on IFRS 3).

69. There is evidence that the cost of changing the accounting for goodwill, the temporary disruption and confusion for users could be significant. For example there are potentially significant consequences of transitioning to an amortisation model for some companies in some jurisdictions (see paragraphs 42–46 of Agenda Paper 18A). These costs are not justified given many users are likely to ignore amortisation (as discussed in paragraph 65). Because an amortisation-based model with an objective of reducing costs would likely include a default amortisation period, this is even more likely to be the case.

70. The lack of a compelling case for change does not justify diverging from US GAAP on this topic nor the costs of transition.

Summary

71. In summary arguments in favour of retaining the impairment-only model include:

(a) A compelling case for change has not been identified;

(b) Stakeholder views continue to be strongly held and divergent;

(c) Both the impairment-only model and an amortisation-based model have their limitations, and each model suits a different view of the nature of goodwill;

(d) Reintroducing amortisation would not resolve concerns about impairment losses not being recognised on a timely basis; and

(e) Reintroducing amortisation would not represent a significant improvement in financial reporting that justifies the disruption and cost of change (including divergence from US GAAP).

Other considerations

Effectiveness of the impairment test

72. The IASB's preliminary view was that it is not feasible to design a different impairment test that is significantly more effective than the impairment test in IAS 36 at a reasonable cost. Most respondents to the Discussion Paper agreed with this preliminary view. Nevertheless many respondents said the application of the impairment test can be improved with some clarifications and targeted changes to

IAS 36 (see Agenda Paper 18C to the IASB's July 2021 meeting). These include, for example, suggestions of requirements or guidance to help prevent goodwill being tested for impairment at too high a level.

73. The IASB is yet to redeliberate improvements it could make to the impairment test of cash-generating units containing goodwill (including suggestions from respondents). The IASB can do this regardless of whether it decides to retain the impairment-only model or to explore reintroducing amortisation of goodwill.

Details of an amortisation-based model

74. If the IASB decide to explore reintroducing amortisation of goodwill, the IASB would still need to agree on the details of the amortisation-based model (see the appendix for examples of the details of that model that would need to be agreed).

75. The two lines of arguments supporting exploring the reintroduction of amortisation discussed in paragraphs 22–41—improving information and reducing costs—have different objectives. One aims to provide users with more useful information and hold management to account better than an impairment-only model. The other aims to provide a simpler, less costly approach to accounting for goodwill.

76. Consequently, the models that would best suit the objectives of these two lines of argument would differ. For example, if amortisation is being reintroduced to provide more useful information, it is likely the amortisation period would be based on management's estimate of the useful life of goodwill. Whereas, if amortisation is being reintroduced to reduce costs, it is likely the model would include a default amortisation period.

77. If the IASB decide to explore reintroducing amortisation of goodwill, it will be important for the IASB to agree on the objective of the amortisation-based model.

Appendix—Other matters to consider if the reintroduction of amortisation is explored

A1. If the IASB decides to explore reintroducing amortisation of goodwill, the IASB would also need to consider other more detailed follow up matters, including:

(a) how to determine the useful life of goodwill;

(b) whether that useful life should have an upper limit, a lower limit or both;

(c) how to determine the amortisation method;

(d) whether to require an annual reassessment of the amortisation method and useful life;

(e) whether to also require amortisation of intangible assets with indefinite useful lives;

(f) how to allocate impairment losses to carrying amounts of goodwill arising from different acquisitions included in the same group of cash-generating units;

(g) how to allocate goodwill arising from different acquisitions on disposal or reorganisation;

(h) related presentation and disclosure requirements—for example, for the amortisation expense; and

(i) applicable transitional arrangements.