Goodwill and Impairment
Introduction

• A Post Implementation Review (PIR) is an important tool in ensuring that IFRSs are of high quality and relevant.

• The purpose of a PIR is to determine if: an IFRS is operating as intended; if it has achieved its objective and improved financial reporting; and to identify any unintended consequences or new issues which may have emerged.

• As required by our Due Process Handbook, the IASB recently completed a PIR of IFRS 3 Business Combinations.
Issues from the IFRS 3 PIR

- From this PIR, the IASB has identified two high priority issues:
  - improving impairment test in IAS 36 *Impairment of Assets*
  - subsequent accounting for goodwill
- Added to IASB research agenda in February 2015 together with two medium/high priority issues
  - identification and measurement of intangible assets
  - how to clarify definition of a business
- Discussions started at joint meeting with US FASB in September 2015
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<th>Area of focus</th>
<th>Possible next steps in the PIR report and feedback statement</th>
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<td>Effectiveness and complexity of testing goodwill for impairment</td>
<td>Consider improvements/simplifications to the impairment model</td>
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<td>Subsequent accounting for goodwill</td>
<td>Consider whether and how the costs of accounting for goodwill can be reduced without loss of information. Consider:</td>
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<td>• how improvements to impairment test could address some concerns raised</td>
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<td>• whether a variation on an amortisation and impairment model could be developed with an amortisation method that does not undermine the information currently provided by impairment-only approach.</td>
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What have we heard from investors?

• Some support current approach (non amortisation) as think has confirmatory value. Some reasons:
  
  • useful for relating price paid to what was acquired and for calculating return on invested capital
  
  • helps them to assess the stewardship of the management
  
  • helps them to verify whether an acquisition is working as expected
What have we heard from investors?

• Others want re-introduction of amortisation of goodwill. Some reasons:
  • acquired goodwill replaced by internally generated goodwill
  • estimating useful life no more difficult than for other intangibles
  • decreases volatility in profit or loss when compared to an impairment model
  • reduces pressure on identification of intangibles if goodwill and intangible assets amortised
Main challenges heard from preparers of impairment test

- Limitations of value in use calculation:
  - High degree of subjectivity
  - Difficulties in determining pre-tax discount rate
  - Prohibitions on what can be included in cash flows
- Time lag between impairment occurring and charge being recognised in the financial statements
- Costs/difficulties of annual impairment test and allocating/reallocating goodwill to CGUs
Suggestions for future academic research

• CEO Changes – what is the correlation of impairment charges when new CEO is an outside hire versus internal promotion?
• What is the correlation of impairment charges to announced changes in strategy versus other factors?
• Correlation of lagging entity share price movement versus overall equity market changes to incidences of impairment charges?
• What are the most relevant cash flows which should be included in impairment testing?
• In view of current IASB project agenda, increased research focus on goodwill impairments, and potential accounting alternatives, versus non goodwill impairments.