IFRS

STAFF PAPER

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FASB | IASB® Meeting

Project	**Goodwill and Impairment research project**
Paper topic	Background and current stage of the IASB's research project

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Purpose

1. This paper sets out (a) the background and brief history of the IASB's research project; and (b) information on the current stage of the project.

Structure of the paper

2. The paper is structured as follows:

   (a) Post-implementation Review of IFRS 3 *Business Combinations* (paragraphs 3–8)

   (b) objectives of the IASB's research project (paragraphs 9–11)

   (c) the IASB's tentative decisions (paragraphs 12–15)

PIR of IFRS 3

3. The IASB issued a revised version of IFRS 3 in 2008 and required entities to apply the revised Standard for annual reporting periods beginning on or after 1 July 2009.

4. As part of its due process, the IASB is required to conduct a PIR once a new Standard or major amendment has been in applied internationally for at least two years. The purpose of a PIR is to ensure that the new Standard or major amendment is working as intended. There is no presumption that a PIR will lead to any changes to a Standard. Depending upon the nature of findings, the IASB may consider making minor amendments to the Standard or prepare an agenda proposal for a broader revision of the Standard.

5. The PIR of IFRS 3 began in 2013, about three years after entities started applying IFRS 3. As part of the PIR, the IASB sought feedback on specified questions about:

   (a) the definition of business;

   (b) fair value measurement in a business combination;

   (c) the recognition of intangible assets separately from goodwill;

   (d) accounting for negative goodwill;

   (e) impairment of goodwill and indefinite-lived intangible assets;

   (f) accounting for non-controlling interests;

   (g) accounting for step acquisitions and loss of control; and

   (h) disclosures.

   See Request for Information (issued in January 2014) for more information about the questions asked.

6. After reviewing the results of the Request for Information, feedback from outreach activities and academic research, the IASB assessed some of the topics listed in paragraph 5 as requiring further follow-up. The IASB concluded the PIR of IFRS 3 by:

   (a) publishing a Report and Feedback Statement in June 2015;

   (b) adding to its work plan a maintenance project on the definition of business; and

   (c) adding to its work plan a research project covering the following topics:

(i) the recognition of intangible assets separately from goodwill;

(ii) impairment of goodwill and indefinite-lived intangible assets; and

(iii) disclosures.

7. Stakeholder feedback received during and after the PIR of IFRS 3 on the individual topics is summarised in Agenda Papers 18C–18F.

8. After considering stakeholders' feedback in its 2015 Agenda Consultation, the IASB decided not to add to its work plan the other topics listed in paragraph 5—fair value measurement in a business combination, accounting for negative goodwill, accounting for non-controlling interests, and accounting for step acquisitions and loss of control.

Objectives of the IASB's research project

9. In adding the topics listed in paragraph 6(c) to its research agenda, the IASB observed that:

(a) the feedback from the PIR of IFRS 3 did not highlight areas where unexpected costs or implementation problems were encountered, and consequently, did not highlight an immediate need to amend IFRS 3, IAS 36 *Impairment of Assets* or IAS 38 *Intangible Assets*;

(b) some of the topics identified for further follow-up were contentious during the development of IFRS 3 and the feedback from the PIR did not provide new information to the IASB;

(c) more research was required:

(i) to understand the reasons for stakeholders' concerns, especially whether the concerns arose because of problems or shortcomings with the existing requirements; and

(ii) to assess if there are ways of resolving those problems.

10. On the basis of stakeholders' feedback received during and after the PIR of IFRS 3, the IASB set its research project the objective of investigating the following four research questions:

(a) are there new conceptual arguments or new information to support reintroducing amortisation of goodwill?

(b) could some identifiable intangible assets acquired in a business combination be allowed to be included within goodwill without taking relevant information away from users of financial statements?

(c) can better and more timely information about acquisitions, goodwill and impairment be provided through disclosures to users of financial statements without imposing costs that exceed the benefits?

(d) can the application of the requirements in IAS 36 be improved by:

(i) simplifying the test without making it less robust; and/or

(ii) making the test more effective at timely recognition of impairments of goodwill?

11. The IASB observed that the four research questions are interconnected, as are possible approaches that might be identified by answering those questions. For example, simplifying the impairment test might make it more difficult to improve the effectiveness of the impairment test and vice versa. Similarly, reintroducing amortisation of goodwill might reduce concerns about the effectiveness of the impairment testing of goodwill, and might remove one obstacle to allowing some identifiable intangible assets with a finite life acquired in a business combination to be included within goodwill. Consequently, the IASB concluded that it should:

(a) assess whether and how each possible approach that might be identified by answering one of the research questions would contribute to improvements in the areas targeted by the other questions; and

(b) identify a balanced package of possible approaches in response to stakeholder feedback received during and after the PIR.

The IASB's tentative decisions

12. The IASB considered the following possible approaches to responding to the four research questions (see paragraph 10):

Objective	*Possible approaches*
Subsequent accounting for goodwill (See Agenda Paper 18C)	Amortisation of goodwill
	Immediate write-off of goodwill on initial recognition
	Componentising goodwill and accounting for the components separately
Allowing some identifiable intangible assets to be included within goodwill (See Agenda Paper 18D)	Allowing specified intangible assets such as customer relationships, brands and non-competition agreements to be included within goodwill
	Requiring recognition of only those intangible assets that have been recognised in the acquired entity's financial statements
	Allowing or requiring to be included in goodwill those identifiable intangible assets that would not have been recognised in financial statements if generated internally
	Allowing all identifiable intangible assets that do not meet the contractual-legal criterion to be included within goodwill
	Categorising intangible assets into wasting assets and organically-replaced intangible assets and in a business combination requiring recognition of only wasting assets
	Allowing some indefinite-lived intangible assets to be included within goodwill
Additional disclosures (See Agenda Paper 18F)	Each year, information about the headroom in a cash-generating unit (or groups of units) to which goodwill is allocated for impairment testing
	Each year, a breakdown of goodwill by past business combination, explaining why the carrying amount of goodwill is recoverable
	In the year in which a business combination occurs, the reasons for paying a premium that exceeds the value of the net identifiable assets acquired in a business combination, together with key assumptions or targets supporting the purchase consideration; and subsequently each year, a comparison of actual performance with those assumptions or targets
	Disclosure of the payback period of an investment in a business combination
Simplify the impairment test	Providing relief from the mandatory annual quantitative impairment testing of goodwill

Objective	*Possible approaches*
(See Agenda Paper 18E)	Removing the requirement for an entity to exclude from the value in use calculation cash flows resulting from a future restructuring or a future enhancement.
	Removing the explicit requirement to use pre-tax inputs to calculate value in use and to disclose the pre-tax discount rates used. Instead, an entity would be required: a. to use internally consistent assumptions about cash flows and discount rates; and b. to disclose the discount rate(s) actually used
	Allowing goodwill to be tested for impairment at the entity-level or at the level of reportable segments
Improving effectiveness of impairment testing (see paragraph 14)	Changing the current requirement of using higher of value in use and fair value less costs of disposal to using a single method as the sole basis for determining the recoverable amount of an asset (or a cash−generating unit)
	Using the unrecognised headroom of a cash−generating unit (or groups of units) as an additional input in the impairment testing of goodwill

13. Having discussed various possible approaches to responding to the four research questions, the IASB tentatively decided:

(a) not to consider reintroducing amortisation of goodwill.

(b) not to consider allowing any identifiable intangible assets acquired in a business combination to be included within goodwill.

(c) to consider introducing requirements for an entity to disclose:

(i) each year, information about the headroom in a cash-generating unit (or groups of units) to which goodwill is allocated for impairment testing.

(ii) each year, a breakdown of goodwill by past business combination, explaining why the carrying amount of goodwill is recoverable.

(iii) in the year in which a business combination occurs, the reasons for paying a premium that exceeds the value of the net identifiable assets acquired in a business combination, together with key assumptions or targets supporting the purchase consideration; and subsequently each year, a comparison of actual performance with those assumptions or targets.

(d) to improve the application of IAS 36 by:

(i) considering making impairment testing of goodwill more effective by using the unrecognised headroom of a cash-generating unit (or groups of units) as an additional input in the impairment testing of goodwill. Unrecognised headroom is the excess of the recoverable amount of a unit (or groups of units) over its carrying amount.

(ii) pursuing making some changes to the requirements for estimating value in use.

14. The approaches considered by the IASB for improving effectiveness of impairment testing have not been selected for discussion at this June 2018 meeting with the FASB because the FASB is currently not considering improving effectiveness of impairment testing of goodwill as part of its research project. Detailed analysis of approaches considered by the IASB is available in Agenda Paper 18C for the December 2017 IASB meeting.

15. At its May 2018 meeting, the IASB tentatively decided not to develop a document that would seek feedback solely about the headroom approach (paragraph 13(d)(i)). The IASB is currently exploring the form and content of the consultation document that should be issued as the next step in the research project.