STAFF PAPER

May 2018

IASB® Meeting

Project	Goodwill and Impairment research project		
Paper topic	Next stage in the research project		
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Purpose

1. The purpose of this paper is for the Board to decide the form of consultation document that should be issued as the next step in the Goodwill and Impairment research project (the research project).

Structure of the paper

2. The paper is structured as follows:

    (a) background and introduction (paragraphs 3–11)

    (b) staff analysis (paragraphs 12–59)

    (c) questions for the Board

    (d) *Appendix A*—The Board's tentative decisions so far

Background and introduction

3. The Board added the research project to its agenda as a follow-up of its Post-implementation Review (PIR) of IFRS 3 *Business Combinations*. See

Appendix A of Agenda Paper 18B for the April 2018 Board meeting for further background on the PIR.

4. Of the topics on which the Board sought feedback during the PIR, the Board identified the following topics for further research and follow-up:

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

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

   (c) disclosures.

5. In adding those topics to its research agenda, the Board 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 Board;

   (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.

6. On the basis of stakeholders' feedback received during and after the PIR of IFRS 3, the Board set the 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 goodwill and impairment be provided to users of financial statements without imposing costs on preparers 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?

7. The Board 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 makes 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 Board 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.

8. Having considered various possible approaches to responding to the four research questions (see paragraph 6), the Board 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 improving the application of IAS 36 by:

(i) 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) amending the calculation of value in use of an asset (or a cash-generating unit) by removing the requirement to exclude from the calculation of value in use those cash flows that would result from a future restructuring or from a future enhancement.

(iii) removing the explicit requirement to use pre-tax inputs in calculating value in use, and to disclose pre-tax discount rates used. Instead, an entity would be required to use internally consistent assumptions about cash flows and discount rates, and to disclose the discount rate(s) actually used.

(d) 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.

See *Appendix A* for a summary of the possible approaches discussed by the Board. See *Appendix B* of Agenda Paper 18B for the April 2018 Board meeting for the staff's assessment of the extent to which the changes listed above would provide improvements in the areas targeted by the four research questions.

9. Having tentatively decided to consider proposing the changes listed in paragraph 8, the Board then discussed whether the next stage should be a Discussion Paper or an Exposure Draft. The Board considered a detailed analysis of whether there is sufficient evidence to proceed with standard-setting on those

changes. See Agenda Paper 18B for the April 2018 Board meeting. The staff recommended that the Board issue:

(a) an Exposure Draft proposing amendments to IAS 36 for the change set out in paragraph 8(c)(iii) on pre-tax inputs; and

(b) a Discussion Paper inviting comments on the Board's preliminary views on all other matters considered in the research project.

10. In recommending that the Board issue a Discussion Paper on all other matters, the following were the staff's main considerations:

(a) there is a clear need to provide an opportunity for debate about the headroom approach to mature among stakeholders. For that purpose, a Discussion Paper would be an ideal document for the Board to define the problem, explain why the Board considered the headroom approach, explain that the Board is sensitive to the cost concerns and seek feedback.

(b) all other changes—ie the change set out in paragraphs 8(c)(ii) and the additional disclosures set out in paragraph 8(d)—are not necessarily new ideas. Those changes are not likely to result in significant differences from existing practice. Having said that, those changes are not yet ready to become specific standard-setting proposals because of the need for more outreach and analysis to understand the costs and establish that the expected benefits exceed the expected costs. Feedback on a Discussion Paper could provide robust evidence on costs and benefits.

(c) as explained in paragraph 7, the issues are interconnected and the possible answers are interconnected. Feedback on a Discussion Paper could highlight any dependencies that we may have overlooked.

11. The Board did not make a decision on this question. To enable it to decide the form of consultation document, the Board directed the staff:

(a) to assess the advantages and disadvantages of developing a document, such as a Request for Information, to seek targeted feedback about the benefits and costs of using the unrecognised headroom of a cash-generating unit (or group of units) as an additional input in the impairment testing of goodwill.

(b) to identify the extent of work that would be required to enable the Board to develop and issue an Exposure Draft on some or all of the following matters:

(i) changes to the calculation of value in use listed in paragraphs 8(c)(ii) and 8(c)(iii).

(ii) possible additional disclosures listed in paragraph 8(d)

Staff analysis

12. The analysis is divided into the following sections:

(a) calculating value in use—removing restriction that excludes specified cash flows (paragraphs 13–23);

(b) calculating value in use—using internally consistent pre-tax or post-tax inputs (paragraphs 24–28);

(c) possible additional disclosure requirements (paragraphs 29–36);

(d) headroom approach (paragraphs 37–49); and

(e) form of consultation document (paragraphs 50–59).

Calculating value in use
Removing restriction that excludes specified cash flows

13. The Board tentatively decided to consider removing the requirement for an entity to exclude from the calculation of value in use those cash flows that would result from a future restructuring or from a future enhancement. See Agenda Paper 18B for the January 2018 Board meeting for a detailed analysis of the issue and the arguments in support of the Board's tentative decision.

Is there sufficient information to proceed with standard-setting?

14. Paragraphs 40–50 of Agenda Paper 18B for the April 2018 Board meeting set out a detailed analysis of whether removing that exclusion would produce benefits for users and would save costs for preparers. On the basis of the analysis, it was not

clear whether removing that exclusion would, on balance, produce net benefits for investors, and would eliminate unnecessary costs and complexity for preparers.

15. Some investors are likely to support removing that exclusion for a simple reason that the resulting information gives them an insight into what management expects will happen in future. On the other hand, some investors may not support removing that exclusion because of concerns about the entity-specific nature of value in use and, consequently, the scope it arguably provides for management to include unjustifiably optimistic inputs to pass the impairment test.

16. It was not clear whether removing that exclusion would eliminate unnecessary costs and complexity for preparers, mainly because an entity might have to use expected value techniques especially if the restructuring or enhancement is not certain to occur. Requiring the use of expected value techniques would be inconsistent with the possible argument of preparers that budgets/forecasts that are the basis for cash flow projections will reflect a single estimate of future cash flows.

17. Some Board members were concerned that management's budgets/forecasts may tend to be set at a level that is challenging, rather than at a level that provides a realistic prediction of what will ultimately happen. Consequently, they thought that any change to the requirements in IAS 36 should be designed to specify clearly that the cash flow projections used in estimating value in use should reflect management's realistic prediction of what will ultimately happen.

Extent of work required to be able to propose amendments

18. On the basis of the analysis in paragraphs 14–17, the main concern is that unjustifiably optimistic inputs may be used in estimating value in use if the change is to simply remove the existing exclusion. Furthermore, any outreach with investors or preparers is not likely to provide more evidence of the benefits or cost savings from the change, or of ways to resolve the concern about the use of unjustifiably optimistic inputs in estimating value in use.

19. Rather, the staff have concluded that the Board should focus on drafting the change in a way that specifies that cash flows used in estimating value in use

include the effects of those future restructurings and future performance enhancements that the entity is more likely than not to undertake.[1]

20. Preparers are likely to support the possible requirement to include in the calculation of value in use those cash flows that would result from a future restructuring or from a future enhancement that are more likely than not to be undertaken. The possible requirement would eliminate the need to use expected value techniques in determining the value of an existing potential in the asset. Preparers are likely to argue that future restructurings or future performance enhancements are generally included in budgets only when those plans are more likely than not to be undertaken.

21. Auditors are likely to support the possible amendments, mainly because of the possible opportunity to question the management on the cash flow projections and for reasons similar to those that make preparers likely to support the possible amendments.

22. Investors are likely to support the possible amendments for a simple reason that the resulting information gives them an insight into what management expects will happen in future.

23. The change could be achieved by proposing amendments to IAS 36 along the following lines:

33 In measuring value in use an entity shall:

(a) base cash flow projections on reasonable and supportable assumptions that represent management's ~~best estimate~~ <u>realistic forecast</u> of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence.

(b) base cash flow projections on the most recent financial budgets/forecasts approved by management~~, but shall~~

[1] Those cash flows would not be weighted by probability. For example, if there is a 60% chance that a restructuring or enhancement will occur and will change cash flows by CU100, the cash flows used in estimating value in use would change by CU100, not by CU60. If there is only a 40% chance that the restructuring or enhancement will occur, the cash flows will not reflect the cash flows that would result from the restructuring or enhancement.

~~exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance~~. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified. <u>If management has any plans to restructure, or to enhance the asset's performance, expected future cash inflows and outflows from those plans shall be included in the cash flow projections only if it is more likely than not that the restructuring or performance enhancement will occur.</u>

(c) estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Calculating value in use
Using internally consistent pre-tax or post-tax inputs

24. The Board tentatively decided to:

(a) remove the explicit requirement to use pre-tax inputs in calculating value in use;

(b) retain the requirement to disclose the discount rates used, but remove the requirement that the discount rate disclosed should be a pre-tax rate; and

(c) require an entity to use internally consistent assumptions about cash flows and discount rates.

25. See Agenda Paper 18A for the January 2018 Board meeting for a detailed analysis of the issue and the arguments in support of the Board's tentative decision.

Is there sufficient information to proceed with standard-setting?

26. Paragraphs 62–69 of Agenda Paper 18B for the April 2018 Board meeting set out a detailed analysis of whether the changes set out in paragraph 24 would produce benefits for users and would save costs for preparers.

27. On the basis of the analysis, it was clear that requiring the discount rate(s) actually used in value in use calculation would produce information that is useful to investors. Similarly, there would be a saving in costs because an entity, if it used post-tax inputs, would no longer be required to use reverse engineering (back solving) to derive the pre-tax discount rate.

28. Consequently, the staff concluded that there is sufficient information, and no further work is required, for the Board to proceed with proposing amendments to IAS 36 for this change.

Possible additional disclosure requirements

29. In response to feedback and suggestions from investors during and after the PIR, the Board tentatively decided to consider introducing requirements for an entity to disclose:

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

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

    (c) 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 the business combination, key assumptions or targets supporting the purchase consideration; and subsequently each year, a comparison of actual performance with those assumptions or targets.

    See Agenda Paper 18F for the December 2017 Board meeting for a detailed analysis.

Is there sufficient information to proceed with standard-setting?

30. Paragraphs 51–56 of [Agenda Paper 18B] for the April 2018 Board meeting set out staff analysis of whether there was sufficient information to proceed with standard-setting.

31. The cost-benefit analysis of possible disclosure of headroom is likely to be similar to the cost-benefit analysis of using headroom information in impairment testing of goodwill.

32. In relation to other possible disclosures set out in paragraphs 29(b) and 29(c), the staff concluded that more work was required, especially outreach with preparers, to understand the costs of preparing the information envisaged by those disclosures.

Extent of work required to be able to propose amendments

33. Members of the Global Preparers Forum (GPF) expressed a concern about the disclosures set out in paragraphs 29(b) and 29(c) that providing the disclosures for each individual acquisition would be difficult because post-acquisition integration could make it difficult for management to track the information.

34. In relation to the information envisaged in paragraph 29(c), many GPF members expressed concerns that for those disclosures to be meaningful an entity would have to disclose commercially sensitive information; consequently, if the Board requires those disclosures, entities are likely to disclose only boilerplate information. The feedback is likely to be the same whether the requirement would be to disclose quantitative information or qualitative information.

35. It is unlikely that further outreach with preparers would provide different feedback. However, investors would support the disclosures, especially the disclosure set out in paragraph 29(c).

36. Consequently, the staff think that the Board could proceed with proposing the disclosures set out in paragraphs 29(b) and 29(c). The staff may have to consult subject-matter experts to obtain information that would help in drafting the disclosure requirements. If any substantive issues crop up during the drafting of the disclosure requirements, the staff would seek direction from the Board.

Headroom approach

37. To respond to the feedback received in the PIR, the Board developed the headroom approach as a way to provide more timely recognition of impairment loss for goodwill by removing the shielding effect of the unrecognised headroom. See Agenda Paper 18C for the December 2017 Board meeting for a detailed analysis of the headroom approach. Alternatively, see pages 10–19 of ASAF Agenda Paper 5 of the April 2018 meeting of the Accounting Standards Advisory Forum for a crisp description of the approach.

Summary of staff analysis in Agenda Paper 18B for April 2018 Board meeting

38. Paragraphs 20–39 of Agenda Paper 18B for the April 2018 Board meeting set out a detailed analysis of whether the headroom approach produces information that is useful to investors without imposing significant costs on preparers.

39. The headroom approach would be likely to bring in more discipline in impairment testing of goodwill because:

    (a) if an entity seeks to apply the rebuttable presumption, it would need to think carefully about factors affecting acquired goodwill.

    (b) the entity's management would be discouraged from making over-optimistic projections of cash flows because any difficulty in maintaining the over-optimism year after year reduces the total headroom, potentially resulting in the recognition of an impairment loss on acquired goodwill.

40. In situations in which an entity rebuts the presumption, investors are likely to benefit from the disclosure of the basis used for attributing the decrease in total headroom. This information is not available to investors in the current impairment test. The staff consulted the Capital Markets Advisory Committee (CMAC) in March 2018. A majority of CMAC members supported the headroom approach because it would remove the shielding effect of any unrecognised headroom. Some members supported the Board's idea of requiring disclosure of the basis of attributing the decrease in total headroom. Those members thought that such disclosure would provide useful information to investors. 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.

41. When developing the headroom approach, the Board considered whether the headroom approach would significantly increase the cost and complexity of impairment testing of goodwill. The Board observed that the approach does not add complexity to the impairment test because it just adds one more input to the existing calculations. Information about unrecognised headroom or total headroom is generally available from the current impairment testing model for goodwill because recoverable amount is calculated annually in testing goodwill for any impairment.

42. However, an entity may have to perform some specified additional tasks to apply the headroom approach in full, which would add to the cost of impairment testing. If one of the following events occurs, an entity would have to carry out additional one-time tasks for calculating the unrecognised headroom:

    (a) for an existing unit that does not contain goodwill and to which newly acquired goodwill has been allocated for the first time, the entity would need to determine the recoverable amount of the existing unit just before the business combination— the pre-combination unrecognised headroom would be used as an input in the first impairment test of the goodwill after the business combination.

    (b) on partial disposal of a unit , the entity would need to determine the recoverable amount of the unit immediately after the disposal (unless all previously acquired goodwill is derecognised)—the post-disposal unrecognised headroom would be used as an input at the next impairment testing.

    (c) for a restructured unit, the entity would need to determine the recoverable amount of the unit immediately after the restructuring—the post-restructuring unrecognised headroom would be used as an input at the next impairment testing.

43. Having identified these additional tasks, the Board thought that it could decide not to require these additional tasks, on cost-benefit grounds, in which case the headroom approach would not be available for that unit in that period. The recoverable amount calculations at the first impairment testing date after the event provide the headroom information to be used in the subsequent impairment testing.

44. The staff consulted the GPF to understand the nature and extent of costs that are likely to be incurred in applying the headroom approach. The feedback of GPF about costs was consistent with the costs identified by the Board.

45. Although benefits and costs of the headroom approach were identified, the staff concluded that more work was required to understand the extent of costs that are likely to be incurred in applying the headroom approach and to confirm that the expected benefits exceed the expected cost of applying the approach. This would involve targeted outreach:

    (a) with investors to explain the information produced by applying the headroom approach; and

    (b) with preparers to better understand whether and when recoverable amount of a unit (or groups of units) is determined annually with precision.

Feedback from Accounting Standards Advisory Forum (ASAF)

46. The staff consulted the ASAF in April 2018. Most ASAF members did not support the headroom approach, mainly because of the incremental costs of applying the approach.

47. Some ASAF members did not support the headroom approach because of the rebuttable presumption that all of a decrease in total headroom relates only to the acquired goodwill. They thought that this presumption could lead to a decrease in total headroom being attributed to acquired goodwill even if the decrease was caused by reasons not connected to the acquired goodwill. This would happen if an entity is unable to gather evidence to rebut the presumption, or decides not to seek such evidence. In the view of those ASAF members, recognising the resulting impairment loss may not provide useful information to investors. Some

CMAC and GPF members expressed the same concern. The Board could address this concern by changing the default position from a rebuttable presumption that all of a decrease in total headroom relates only to the acquired goodwill to a rebuttable presumption that any decrease in total headroom should be allocated pro-rata to both acquired goodwill and the unrecognised headroom.

48. Some ASAF members advised the staff to consider whether the intended objective of improving the impairment test is that goodwill should not remain on an entity's statement of financial position for ever. If that was the objective, then amortisation of goodwill is a less-costly way of achieving that objective. However, the staff note that the IAS 36 impairment testing model was not designed with an objective that goodwill should not remain on an entity's statement of financial position for ever. Furthermore, the research question identified for investigation is whether the impairment test could be made more effective at timely recognition of impairments of goodwill. In relation to amortisation of goodwill, the research question identified by the Board was whether there are new conceptual arguments or new information to support reintroducing amortisation of goodwill.

49. At its December 2017 meeting, the Board discussed and tentatively decided not to consider reintroducing amortisation of goodwill. See Agenda Paper 18B for the December 2017 Board meeting. The ASAF discussion did not provide any new information or new conceptual arguments that the Board did not already consider in December 2017.

Form of consultation document

50. The Board could pursue the following approaches:

<table>
<tr><th>Topic</th><th>A</th><th>B</th><th>C</th><th>D</th></tr>
<tr><td>Value in use—pre-tax inputs</td><td rowspan="4">DP</td><td>ED</td><td rowspan="3">ED</td><td rowspan="3">ED</td></tr>
<tr><td>Value in use—expected cash flows from future restructurings and performance enhancements</td><td rowspan="3">DP</td></tr>
<tr><td>Possible additional disclosure requirements</td></tr>
<tr><td>Headroom approach</td><td>RFI</td><td>DP</td></tr>
</table>

[DP—Discussion Paper; ED—Exposure Draft; RFI—Request for Information]

51. The staff do not recommend approaches A and B, mainly because the changes to the value in use calculation and the disclosures envisaged in paragraph 8(d)(ii) [breakdown of goodwill] and paragraph 8(d)(iii) [reasons for premium, assumptions, subsequent comparison with performance] are relatively straightforward improvements. On the basis of the analysis in paragraphs 13–36, the staff think that the Board could propose amendments to IAS 36 and IFRS 3 for these topics. The proposed amendments are likely to be supported by stakeholders. Including these topics in a DP would delay these improvements.

52. Consequently, the staff have identified approach C and approach D as the most feasible options for the Board to pursue.

53. Both approaches involve dividing the research project into two parts—the relatively straightforward improvements (see paragraph 51) and the headroom approach. It is possible to divide the project this way because making the relatively straightforward improvements poses no obstacle to considering the headroom approach separately. If the Board were to make the relatively straightforward improvements to the relevant IFRS Standards, then discuss the headroom approach, there would be no need to revisit those improvements subsequently in the light of any further improvements the Board might decide to make once it has analysed feedback received on the headroom approach.

54. In both approaches D and E, for the reasons explained in paragraph 51, the Board could propose amendments to IAS 36 and IFRS 3 for the relatively straightforward improvements—ie changes to the value in use calculation and the disclosures envisaged in paragraphs 8(d)(ii)and 8(d)(iii).

55. In relation to the headroom approach, the Board has identified the likely benefits and costs of applying the headroom approach. The Board identified the need to provide an opportunity for debate about the headroom approach to mature among stakeholders. The Board also identified the need for more information in order to establish whether the benefits of applying the headroom approach exceed the costs. An ED is not meant to educate stakeholders about the headroom approach. For issuing an ED, the Board should have already assessed whether the expected benefits from the proposed amendments to a Standard would outweigh the expected costs of applying those amendments. However, this is not the case with

the headroom approach. Consequently, the Board could consider issuing a RFI (approach C) or a DP (approach D) to seek feedback on the headroom approach. In the staff's view, the consultation document that seeks feedback on the headroom approach (DP or RFI) should also, as important background information, discuss why the Board decided tentatively not to propose:

(a) reintroducing amortisation of goodwill; or

(b) allowing some identifiable intangible assets acquired in a business combination to be included within goodwill.

56. Either DP or RFI, together with outreach, would provide an opportunity to educate stakeholders about the headroom approach and to obtain targeted information about the benefits and costs. On analysing the feedback on the DP or RFI, the Board should be in a position to decide whether to move to develop an Exposure Draft.

57. A DP would allow the Board to provide more background about the research project including the approaches considered and rejected by the Board, seek stakeholder feedback on the headroom approach and seek targeted information about the benefits and costs of applying the headroom approach.

58. A RFI would allow the Board to seek targeted information about the benefits and costs of the headroom approach. After analysing the feedback on the RFI, the Board should be in a position to decide whether to move to develop an ED, without needing to issue a DP first.

59. The next step for the Board would be to decide whether the DP/RFI for the headroom approach and the ED for the relatively straightforward improvements should be processed in parallel or whether one of those should be prioritised. The advantages of the various course of action are shown in the following table.

Action	*Advantages*	*Disadvantages*
DP/RFI first	If the Board subsequently decides to develop an ED on topics covered by the DP/RFI, the Board could then issue a single ED on all topics.	Would delay the relatively straightforward improvements.

Action	*Advantages*	*Disadvantages*
ED first	Would not delay the relatively straightforward improvements.	May lead to two separate Exposure Drafts in short succession affecting the same Standard.
Both in parallel	Would maintain momentum.	Would need to divert substantial staff resources from other work. May lead to two separate Exposure Drafts in short succession affecting the same Standard.

Questions for the Board

1. Does the Board agree with pursuing inclusion in the value in use calculation of expected cash flows from future restructuring and future performance enhancements that management is more likely than not to undertake?
2. Does the Board wish to divide the project into two parts as explained in paragraph 53?
3. If the Board wishes to divide the project into two parts as explained in paragraph 53, which action in the table in paragraph 59 would the Board wish to take?
4. Does the Board wish to issue a Discussion Paper or a Request for Information to seek feedback on the headroom approach?

Appendix A
The Board's tentative decisions so far

The following table (Table 1) summarises the various possible approaches discussed by the Board in response to the four questions identified for investigation in the research project.

Objective	***Possible approaches***	***Board's preferred approach***
Improving effectiveness of impairment testing (Agenda Paper 18C for the December 2017 Board meeting)	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)	No
	Using the unrecognised headroom of a cash−generating unit (or groups of units) as an additional input in the impairment testing of goodwill	Yes
Simplify the impairment test (Agenda Paper 18E for the December 2017 Board meeting; Agenda Paper 18A and Agenda Paper 18B for the January 2018 Board meeting)	Providing relief from the mandatory annual quantitative impairment testing of goodwill	No
	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.	Yes
	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	Yes
	Allowing goodwill to be tested for impairment at the entity-level or at the level of reportable segments	No

Objective	*Possible approaches*	*Board's preferred approach*
Additional disclosures (Agenda Paper 18F for the December 2017 Board meeting)	Each year, information about the headroom in a cash-generating unit (or groups of units) to which goodwill is allocated for impairment testing	Yes
	Each year, a breakdown of goodwill by past business combination, explaining why the carrying amount of goodwill is recoverable	Yes
	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	Yes
	Disclosure of the payback period of an investment in a business combination	No
Allowing some identifiable intangible assets to be included within goodwill (Agenda Paper 18A for the April 2018 Board meeting)	Allowing specified intangible assets such as customer relationships, brands and non-competition agreements to be included within goodwill	No
	Requiring recognition of only those intangible assets that have been recognised in the acquired entity's financial statements	No
	Allowing or requiring to be included in goodwill those identifiable intangible assets that would not have been recognised in financial statements if generated internally	No
	Allowing all identifiable intangible assets that do not meet the contractual-legal criterion to be included within goodwill	No
	Categorising intangible assets into wasting assets and organically-replaced intangible assets and in a business combination requiring recognition of only wasting assets	No
	Allowing some indefinite-lived intangible assets to be included within goodwill	No