

STAFF PAPER

April 2019

IASB[®] Meeting

Project	Goodwill and Impairment		
Paper topic	Understanding how the ideas being explored interconnect		
CONTACT(S)	Tim Craig	tcraig@ifrs.org	+44 (0)20 7246 6921
	Woung Hee Lee	wlee@ifrs.org	+44 (0)20 7246 6947

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS[®] Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB[®] *Update*.

Purpose

1. The purpose of this paper is to summarise the ideas being explored by the project and analyses how they could meet the objectives, set by the Board in July 2018. There are no questions for the Board, but the staff would welcome any comments Board members may have.
2. The paper provides:
 - (a) background (paragraph 3); and
 - (b) analysis of the ideas being explored (paragraphs 4-7).

Background

3. In the July 2018 Board meeting, on the basis of the findings from the research project, the Board made the following tentative decisions:
 - (a) to pursue the objective of exploring whether disclosures could be improved to enable investors to assess more effectively whether a business combination was a good investment decision and whether the acquired business is performing after the acquisition as was expected at the time of the acquisition;

- (b) to pursue the objective of simplifying the accounting for goodwill by exploring whether to:
 - (i) reintroduce amortisation; and/or
 - (ii) provide relief from the mandatory annual quantitative impairment testing of goodwill;
- (c) to pursue the objective of improving the calculation of value in use (VIU) by removing from IAS 36 *Impairment of Assets*:
 - (i) the restriction that excludes from the calculation, those cash flows that are expected to result from a future restructuring or from a future enhancement; and
 - (ii) the requirement to use pre-tax inputs in the calculation.

Analysis of the ideas being explored

4. The objectives in paragraph 3 can be summarised as:
 - (a) improving disclosures (better information);
 - (b) simplifying the accounting for goodwill (reducing cost); and
 - (c) simplifying the impairment test (reducing cost).
5. In addition, prior to July 2018, the project had been pursuing an objective of improving the effectiveness of the impairment test for goodwill. In July 2018, the Board tentatively decided not to pursue this objective further. Nevertheless, the ideas that are being explored will also be analysed against an objective of improving the effectiveness of the impairment test (improving effectiveness) since certain of these ideas could impact this objective and that impact may influence which ideas are preferred in a preliminary view.
6. Table 1 analyses the ideas being explored in the research project and which objective they contribute to meeting, whether there are any secondary benefits that assist the achievement of other objectives and whether they hinder the achievement of any objective:

Table 1

Idea being explored	Objectives helped by idea	Secondary benefits	Objectives hindered by idea
<i>Better disclosures for business combinations</i>	Better information: provides better information on whether a business combination is a good investment decision and whether the key objectives of the business combination have been achieved	Improving effectiveness: information on subsequent performance could provide auditors with additional information to challenge management’s forecasts Better information: the disclosures may provide information that enables users to make their own impairment assessments	Reducing cost: additional disclosure requirements will result in additional costs for preparers
<i>Reintroduction of amortisation</i>	Reducing cost: the reintroduction of amortisation could place less pressure on the impairment test which may	Reducing cost: if the reintroduction of amortisation is a pre-requisite to obtain relief from the mandatory annual impairment test, this	Better information: the amortisation expense provides little or no information. The reintroduction of amortisation may reduce the frequency of

Idea being explored	Objectives helped by idea	Secondary benefits	Objectives hindered by idea
	make the impairment test simpler to apply	could reduce costs for preparers	<p>impairment losses being recognised and may therefore further limit the information provided by the impairment test</p> <p>Reducing cost: reintroduction of amortisation could result in additional costs to users, for example, if they wish to remove the amortisation expense in their models</p>
<i>Relief from the mandatory annual impairment test</i>	Reducing cost: there is no need to perform the test annually, saving costs for preparers	Better information: better information provided if there is a (new) requirement to disclose indicators of impairment even if the impairment test does not identify an impairment loss	<p>Improving effectiveness: relief may reduce the effectiveness of the impairment test further, because identifying indicators of impairment may require more judgement</p> <p>Better information: in periods when a quantitative test is not</p>

Idea being explored	Objectives helped by idea	Secondary benefits	Objectives hindered by idea
			performed, disclosure of the assumptions made in the quantitative test would not be provided. Users have said that information about these assumptions is useful
<i>Removing requirement to use pre-tax inputs in calculating VIU</i>	<p>Reducing cost: in practice, the test is generally performed using a post-tax discount rate, and then separate calculations are performed to convert the post-tax rate into a pre-tax rate. Those calculations would no longer be needed</p> <p>Improving effectiveness: allowing a post-tax approach could make the impairment test more understandable since it</p>	<p>Better information: disclosure of a post-tax discount rate is probably better information for users</p>	

Idea being explored	Objectives helped by idea	Secondary benefits	Objectives hindered by idea
	will follow how the test is generally performed in practice		
<i>Removing restrictions on cash flow projections used in calculating VIU</i>	<p>Improving effectiveness: basing the projections on all cash flows in budgets/forecasts approved by management will add discipline to the projections by reducing the risk that the projections are prepared only for financial reporting and are not used in the business</p> <p>Reducing cost: by removing this restriction, there will be no need to isolate restructuring or enhancement cash flows from management’s budgets/forecasts</p>	<p>Improving effectiveness: the result is more understandable because it is more clearly aligned with the definition of VIU, and because recoverable amount would be based more clearly on two different measures of the same unit of account, rather than on measures of two different units of account</p>	<p>Improving effectiveness: when an entity is not yet committed to a restructuring, estimates of the resulting benefits could be subject to management over-optimism, and this could make the impairment test less effective. However, the measures the Board could consider to address this concern may result in an improvement in the overall effectiveness of the impairment test</p>

7. The staff's ideas for achieving the objective of providing better disclosures for business combinations are being discussed at this Board meeting (see Agenda Paper 18B). Other ideas will be discussed at a future Board meeting and the Board will then decide which ideas to pursue further.