IFRS FASB

STAFF PAPER

IASB/FASB Agenda ref **18**

23 July 2019

FASB | IASB Meeting

Project	Goodwill and Impairment (IASB) / Identifiable Intangible Assets and the Subsequent Accounting for Goodwill (FASB)		
Paper topic	Cover Paper		
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Purpose of the meeting

1. The purpose of this meeting is to provide both boards with an update of the work of each board on their respective projects. The meeting will give members of the boards an opportunity to ask questions about the projects—with particular focus on (a) disclosures; (b) amortisation of goodwill versus an impairment-only model; and (c) simplification of the impairment test.

2. The boards are not being asked to make any decisions.

Structure of the paper

3. The paper is structured as follows:

   (a) summary of meeting papers (paragraph 4);

   (b) brief introduction to the projects (paragraphs 5–7); and

   (c) comparison of applicable IFRS Standards and US GAAP (paragraphs 8–9).

Summary of meeting papers

4. This cover paper accompanies the following Agenda Papers:

   (a) *IASB Agenda Paper 18A—Summary of the IASB's research project*: This paper sets out a summary of the current status of the

IASB's research project, of the decisions made by the IASB in its June 2019 Board meeting and of the next steps in the research project. A link to the detailed supporting papers for the June 2019 Board meeting is also provided.

(b) *FASB Agenda Paper 18B—Summary of FASB's Invitation to Comment*: This paper sets out a summary of the staff document that was issued in July 2019. A link to the Invitation to Comment (ITC) is also provided.

Brief introduction to the projects

5. Both the IASB and the FASB have on their respective agendas projects covering accounting for goodwill. Those projects do not constitute a joint project. However, both boards previously decided to monitor each other's work because of the largely converged accounting models for business combinations.

6. The IASB's project is in a research phase while the FASB's project is in an active project phase. The following table summarises the original research questions/considerations of the research projects of the IASB and of the FASB, most of which were similar.

IASB's original research questions	***FASB's original research considerations***
Are there new conceptual arguments or new information to support reintroducing amortisation of goodwill?	Whether to allow the amortization of goodwill and align the standards for public and private companies.
Could some identifiable intangible assets acquired in a business combination be included within goodwill without taking relevant information away from users of financial statements?	Whether to allow certain customer-related intangible assets (those that cannot be sold or licensed independently from the business) and all non-competition agreements to be included within goodwill and amortized.
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?	No specific comments or further considerations.

IASB's original research questions	***FASB's original research considerations***
Can the application of the requirements in IAS 36 *Impairment of Assets* be improved by simplifying the test without making it less robust?	In a separate initiative, the FASB previously simplified the impairment test for goodwill to reduce cost and complexity without compromising information provided to investors and other users. If the recognition of customer-related intangibles and/or non-competition agreements, or the subsequent measurement of goodwill were to be changed, whether to simplify the impairment test further by: a. requiring testing only when there is a triggering event b. allowing testing either at the reporting unit level or at an entity level.
Can the impairment test be made more effective at timely recognition of impairments of goodwill?	No specific comments or further considerations.

7. See Agenda Paper 18A for detailed background of the IASB's research project. See Agenda Paper 18B for detailed background of the FASB's ITC.

Comparison of applicable IFRS Standards and US GAAP

8. The boards may find the following summary of differences between IFRS Standards and US GAAP helpful background.

9. The requirements on accounting for business combinations are largely converged. However, the requirements on accounting for impairment of non-financial assets are not, as summarised in the following table.

	IFRS Standards	***US GAAP***
Frequency	Goodwill, intangible assets with indefinite life and intangible assets not yet available for use are tested quantitively for impairment annually and whenever there is an indication that they may be impaired. The annual test may be performed at any time during the	Impairment testing of long-lived assets (finite life) is required when events occur that indicate long-lived assets may not be recoverable. Goodwill and intangible assets with indefinite life are tested for

	IFRS Standards	*US GAAP*
	year provided it is performed at the same time each year. Impairment testing for all other assets within the scope of IAS 36 is required when there is any indication of impairment.	impairment on an annual basis and upon a triggering event. The annual goodwill impairment test may be performed any time during the year provided it is performed at the same time each year. US GAAP does not specifically require the annual impairment test to be performed at the same time each year for indefinite-lived intangible assets. For private and not-for-profit entities that elect to amortize goodwill, impairment testing would be performed upon a triggering event, rather than annually.
Unit for non-financial assets / Units for assets other than goodwill	Depending on the circumstances, assets are tested for impairment as an individual asset or as part of a cash-generating unit (CGU). When possible, an impairment test is performed for an individual asset. Otherwise, assets are tested in CGUs. A CGU is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets.	Generally, indefinite-lived intangible assets are tested for impairment individually unless separately recorded indefinite-lived intangible assets operate as a single unit (essentially inseparable from one another). Long-lived assets are tested for impairment at an asset group level. An asset group is the lowest level for which there are identifiable cash flows that are largely independent of the net cash flows of other groups of assets.
Unit for goodwill	For testing goodwill for impairment, goodwill is allocated to a CGU, or group of CGUs. Each unit or group of units is required to reflect the lowest level at which goodwill is monitored for internal management purposes and shall not be larger than an operating segment.	Goodwill is tested for impairment at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment. For private and not-for-profit entities that elect to amortize goodwill, impairment testing can be performed at an entity level or at a reporting unit level.
Allocation of goodwill	Goodwill is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the	Goodwill is allocated to reporting units that are expected to benefit from the synergies of the business combination from which it arose.

	IFRS Standards	*US GAAP*
	business combination from which it arose. Goodwill has to be reallocated to the affected CGUs if there is a reorganisation of reporting structure.	Goodwill can be reassigned when there is a reorganization of reporting structure.
Allocation of impairment	An impairment loss for a CGU is allocated first to any goodwill and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. The amount of loss allocated to other assets in the CGU should not reduce the carrying amount of those assets below their recoverable amount.	A long-lived asset impairment loss is measured as the amount by which the carrying amount of the asset group exceeds its fair value. That loss should be allocated within the asset group on a pro rata basis using each long-lived asset's relative carrying amount. However, the loss allocated to an individual long-lived asset should not reduce the carrying amount of that asset below its fair value whenever that fair value is determinable without undue cost and effort. Goodwill impairment loss is measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill.
Reversals	Reversals of impairment are prohibited for goodwill but if they arise are required for all other assets.	Reversals of impairments are prohibited.
Impairment testing model(s)	One-step impairment test for all assets within the scope of IAS 36. The carrying amount of an asset or CGU is compared with its recoverable amount. Recoverable amount is the higher of fair value less costs of disposal and value in use. In measuring the recoverable amount at a test date, an entity could roll-forward the most recent detailed calculation of recoverable	Different models for goodwill, indefinite-lived intangible assets and long-lived assets. *Goodwill* A one-step (quantitative) impairment test is required for all entities, which is effective 2020. The carrying amount of a reporting unit is compared with its fair value. The impairment loss is measured as the excess of the carrying amount over the fair value of the reporting unit. The loss recognized

	IFRS Standards	US GAAP
	amount made in a preceding period if it satisfies specified criteria. The impairment loss is measured as the difference between carrying amount and recoverable amount.	cannot exceed the carrying amount of goodwill. <u>Optional qualitative assessment:</u> An entity may first assess qualitative factors to determine whether the quantitative goodwill impairment test is necessary. If the entity determines, based on the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is below its carrying amount, the quantitative impairment test is performed. Examples are provided of events and circumstances that an entity would need to consider in performing the qualitative impairment test. An entity can bypass the qualitative assessment for any reporting unit in any period and proceed to the quantitative test. <u>Accounting Alternatives:</u> Private and not-for-profit entities have the option to amortize goodwill on a straight-line basis over 10 years or less if the entity demonstrates that another useful life is more appropriate. For entities that elect to amortize goodwill, impairment testing would be performed upon a triggering event, rather than annually, and can be performed at an entity level or at a reporting unit level. <u>*Indefinite-lived intangible assets*</u> One-step impairment test. The carrying amount of an asset is compared with its fair value. The impairment loss is recognized as the excess of the carrying amount over the fair value of the asset. An entity could perform an optional qualitative assessment, similar to

	IFRS Standards	*US GAAP*
		the one used for goodwill. *Long-lived assets* The asset group is first tested for recoverability. If the carrying amount is lower than the undiscounted cash flows, then the asset group is recoverable and no impairment loss is recognized. If the asset group is not recoverable, the impairment loss is the amount by which the carrying amount of the asset group exceeds its fair value.