IFRS

STAFF PAPER

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IASB® meeting

Project	**Goodwill and Impairment**		
Paper topic	Reintroduction of amortisation of goodwill		

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Purpose of this paper

1. This Agenda Paper discusses whether amortisation of goodwill should be reintroduced[1], replacing the impairment-only model that currently applies for goodwill.

2. The staff recommend the Board include in the Discussion Paper a preliminary view that the Board should retain the existing impairment-only model for the subsequent accounting for goodwill.

Structure of the paper

3. The paper is structured as follows:
   - (a) Rationale for reconsidering whether to reintroduce amortisation (paragraphs 4–16);
   - (b) Arguments for reintroducing amortisation (paragraphs 17–27);
   - (c) Arguments for retaining the impairment-only model (paragraphs 28–40);

[1] References in this paper to the reintroduction of amortisation should be read as amortisation with an impairment test.

(d) Staff analysis and recommendation (paragraphs 41–54);

(e) Question for the Board;

(f) Other issues for consideration (paragraphs 55–57);

(g) Appendix A – Historical arguments; and

(h) Appendix B – Extracts from the Basis for Conclusions on IAS 36 *Impairment of Assets* and *IFRS for SMEs*.

Rationale for reconsidering whether to reintroduce amortisation

4. Paragraph 90 of IAS 36 requires goodwill acquired in a business combination to be tested annually for impairment, irrespective of whether there is any indication of impairment. That requirement was introduced in 2004. Until then, IAS 22 *Business Combinations* had required acquired goodwill to be amortised over its useful life with a rebuttable presumption that its useful life did not exceed twenty years. If that presumption was rebutted, acquired goodwill was required to be tested for impairment at least at each financial year-end, even if there was no indication that it was impaired.

5. In paragraphs BC131A–BC131G of the Basis for Conclusions on IAS 36 (see Appendix B to this paper), the Board observed that:

   (a) it is generally not possible to predict the useful life of goodwill and the pattern in which it diminishes. As a result, the amount of amortisation in any given period can be described as at best an arbitrary estimate of the consumption of goodwill during that period.

   (b) straight-line amortisation of goodwill over an arbitrary period fails to provide useful information, and anecdotal and research evidence supported that view.

   (c) if a rigorous and operational impairment test could be devised, more useful information would be provided to users of an entity's financial statements under an approach in which goodwill is not amortised, but instead tested for impairment annually or more frequently if events or changes in circumstances indicate that the goodwill might be impaired. After considering respondents' comments to the exposure draft of proposed amendments to IAS 36 on the form that such an impairment test should take, the Board concluded that it had devised a sufficiently robust and operational impairment test.

6. Many participants in the Post-implementation Review (PIR) of IFRS 3 *Business Combinations*[2] suggested reintroducing amortisation of goodwill. In addition, participants provided feedback on the benefits and costs of the impairment test:

   (a) Some investors thought the impairment-only approach useful for relating the price paid to what was acquired and for calculating the return on invested capital, assessing the stewardship of management and verifying whether an acquisition is working as expected. Nevertheless, many participants thought that impairment losses were often recognised 'too late'—ie not recognised on a timely basis. They thought the information provided by the impairment test had confirmatory value but not predictive value[3].

   (b) Many participants thought the impairment test was complex, time-consuming and expensive and involved significant judgements.

7. In response to this feedback, the Board set the research project one objective of investigating whether it would be possible to make the impairment test more effective to address the 'too late' issue. In the light of the research conducted to meet that objective, the staff have concluded that two broad reasons contribute to impairment losses being recognised too late:

   (a) management optimism—feedback from the PIR of IFRS 3 highlighted concerns about the high degree of subjectivity in the assumptions used in estimating value in use and a number of participants reporting those

[2] The scope of the PIR covered the whole Business Combinations project, which resulted in IFRS 3 (2004), IFRS 3 (2008) and consequential amendments to IAS 27 *Consolidated and Separate Financial Statements*, IAS 36 and IAS 38 *Intangible Assets*.

[3] Paragraph 2.6 of the *Conceptual Framework for Financial Reporting* (Conceptual Framework) states that relevant information is capable of making a difference in the decisions made by users [of financial statements]. Paragraph 2.7 states that financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.

concerns were concerned with management optimism. There is also academic research that provides evidence of management discretion in the timing of recognition of impairment losses, and that management incentives and CEO tenure can affect the timeliness of impairment recognition, as well as evidence of income smoothing and 'big bath' behaviour (see **Agenda Paper 12A for the December 2014** Board meeting); and

(b) shielding effect—the unrecognised headroom in a cash-generating unit[4] containing acquired goodwill tends to shield that goodwill against the recognition of impairment losses as follows:

 (i) at the date of the business combination, if goodwill is allocated to an existing business, the shielding effect arises from unrecognised headroom within that existing business—the already present internally generated goodwill, any unrecognised identifiable assets and any difference between the current value and the carrying amounts of the net assets of the existing business; or

 (ii) after the business combination, an additional shield may arise regardless of whether the acquired business was combined with an existing business. That additional shield arises from the following if they occur after the date of the business combination: any internally generated goodwill, any unrecognised identifiable assets and any further difference between the current value of the net assets and their carrying amounts.

8. The Board investigated whether the shielding effect could be diminished and the acquired goodwill targeted better by incorporating the unrecognised headroom into the design of the impairment test. This 'headroom approach' would allocate some of any reduction in total headroom to the acquired goodwill unless, for example, a rebuttable presumption was met, whereas in the existing impairment test the unrecognised headroom absorbs all of this reduction first. See **Agenda Paper 18C for**

[4] In this paper, any reference to a cash-generating unit or a unit should be read as also referring to groups of cash-generating units or units to which the goodwill relates.

the December 2017 Board meeting for a detailed analysis of the 'headroom approach'.

9. As well as targeting the acquired goodwill better, the staff also believed the headroom approach could help reduce the risk of management optimism since the difficulty of maintaining 'over-optimism' year after year to prevent a reduction in the headroom could discourage over-optimistic projections of cash flows. Making the impairment test more effective could also have provided users of the financial statements with useful information on the performance of the acquired business.

10. The Board consultative groups (the Accounting Standards Advisory Forum (ASAF), Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF)) provided feedback on the 'headroom approach' in 2018. Although CMAC members generally supported the approach, ASAF and GPF members reported the following concerns, largely in relation to the cost of the approach:

    (a) The approach would add further costs to an already costly test. Entities would need to value the headroom at the end of each period precisely enough to include it as an input in the following period's impairment test. In practice in many cases, if it was clear that no impairment had occurred, entities might not have estimated the amount precisely enough. For example, entities may estimate a range which is sufficient under the existing test to conclude no impairment has occurred.

    (b) Costs of gathering information to rebut the presumption that a decline in recoverable amount relates only to acquired goodwill, as well as costs of justifying the rebuttal to auditors and regulators and of disclosing the reasons for rebutting the presumption would add further costs.

    (c) In some cases, the allocation of some or all of a reduction in total headroom to acquired goodwill could lead to counterintuitive and perhaps misleading results.

11. Although the headroom approach would incorporate the unrecognised headroom of a cash-generating unit into the impairment test, the test still would not target the acquired goodwill in isolation. It would estimate a reduction in the total headroom of a cash-generating unit, but it would not identify whether the cause was a reduction in

the value of the acquired goodwill or a reduction in another element contributing to the headroom within the cash-generating unit. The reduction would need to be allocated to the acquired goodwill. There are a number of ways this could be done, but none would be able to accurately reflect the actual reduction in value of the acquired goodwill. These findings (that the test cannot target the acquired goodwill in isolation) were consistent with the conclusions the Board reached in developing IFRS 3, that it is not possible to measure the acquired goodwill directly and that consequently goodwill needs to be measured as a residual.

12. Having concluded that it was not possible to make significant improvements to the impairment test, nor to design an impairment test that would target the acquired goodwill, the Board decided in the July 2018 Board meeting to set one objective for the project of investigating whether it would be possible to improve the information provided to users of financial statements on business combinations, in particular through disclosure on the subsequent performance of the acquisition (see **Agenda Paper 18A Better disclosures for business combinations**).

13. In light of the feedback from the PIR of IFRS 3 on the cost and complexity of the impairment test and the limitations of the information it provides, the Board has also reconsidered the subsequent accounting for goodwill and the impairment test, to assess whether these could be simplified. The reintroduction of amortisation could:

    (a) take some pressure off from the impairment test, which may make the impairment test easier to apply; and

    (b) provide a simple mechanism for reducing the carrying amount of acquired goodwill and thus address concerns of those stakeholders who believe that the carrying amount of acquired goodwill may tend to be overstated.

14. At an earlier stage of the project the Board had decided tentatively not to reintroduce amortisation. This decision was based on the staff's research which concluded there were no new arguments to support the reintroduction of amortisation of goodwill (see **Agenda Paper 18B for the December 2017** Board meeting). The historical arguments for and against amortisation of goodwill are summarised in Appendix A and the intention is not to reconsider these historical arguments. The Board had already considered these or similar arguments when issuing IFRS 3.

15. Instead, the next two sections explore the arguments for reintroducing amortisation and the arguments for retaining an impairment-only model in the context of the findings of the research project to date, including some of the key elements of the feedback from the PIR of IFRS 3 relevant to the decisions made by the Board when deciding to adopt an impairment-only model for goodwill.

16. In these sections, the staff have not assessed the weight or strength of the various arguments presented. The staff carry out that assessment in the staff analysis and recommendation section in paragraphs 41–54.

Arguments for reintroducing amortisation

17. This section examines the following arguments for reintroducing amortisation, focusing on those arguments for which the PIR of IFRS 3 and this research project provided new information:

    (a) unexpected outcomes identified by the PIR of IFRS 3 or subsequent research; and

    (b) amortisation as a simple mechanism to reduce the carrying amount of goodwill.

    Appendix A summarises other well-known and long-standing arguments for reintroducing amortisation of goodwill.

Unexpected outcomes identified by the PIR of IFRS 3 or subsequent research

18. A PIR considers issues that were important or contentious during the development of a Standard and is intended to identify areas where unexpected costs or implementation problems have been encountered. Amortisation was one of these important or contentious issues.

19. The Board's decision in 2004 to implement an impairment-only model for goodwill was based on the conclusion that this approach would provide more useful information to users of an entity's financial statements and that the impairment test

was rigorous and operational. The feedback from the PIR of IFRS 3, and the findings of our research project, call those conclusions into question:

(a) Although some stakeholders believe the impairment test does provide useful information, the value it provides is often only confirmatory.

(b) The feedback from the PIR of IFRS 3 and during the project has highlighted that impairment losses are often not recognised on a timely basis. This causes doubts about whether the impairment test is as rigorous as the Board thought.

(c) The feedback indicates that the impairment test is complex and costly. This causes doubts about whether the impairment test is as operational as the Board thought.

20. The Board was not aware of this feedback when it analysed the benefits and costs of introducing an impairment-only approach for goodwill before issuing IFRS 3 in 2004.

Amortisation as a simple mechanism to reduce the carrying amount of goodwill

21. The Board has, in this project, investigated whether it is possible to make the impairment test more effective and to target the acquired goodwill more directly. However, that has proved not to be possible. Amortisation. however, does target the acquired goodwill in isolation and reduces its carrying amount over a period of time.

22. Although there are no new conceptual arguments for reintroducing amortisation or, conversely, for retaining the impairment-only model, the work the Board has done on the ‘headroom approach’, and its investigation of whether it is possible to make the impairment test more effective, have provided new information by highlighting the potential impact of the shielding effect caused by unrecognised headroom. Some stakeholders believe the shielding effect (and there may be similar concerns regarding management optimism) means that carrying amounts of acquired goodwill could be overstated. In their view, amortisation of goodwill is an appropriate response to the ‘too late’ issue, reducing the risk of overstatement by targeting the acquired goodwill in isolation.

23. Those stakeholders acknowledge that estimates of the useful life of goodwill are subject to considerable measurement uncertainty, but as noted in paragraph 2.19 of the *Conceptual Framework*, measurement uncertainty does not necessarily prevent an estimate providing useful information. These stakeholders would conclude that the carrying amount of acquired goodwill net of amortisation provides a more faithful representation of the estimated future benefits still expected from the business combination than is provided by the carrying amount of acquired goodwill under an impairment-only model.

24. In support of the view that the carrying amount of goodwill tends to be overstated, the staff note that there is anecdotal evidence that a high percentage of acquisitions fail.

25. Also, supporters of amortisation could argue that:

   (a) reintroducing amortisation would reduce the pressure on the impairment test and is likely to be seen by many preparers as the only way to reduce significantly the costs and complexity of subsequent accounting for goodwill. Because measuring the recoverable amount is a valuation concept, simplifications to that process would provide only limited benefits to preparers.

   (b) by reducing the pressure on the impairment test, amortisation would reduce the enforcement and audit quality concerns the existing impairment-only model causes regulators and auditors.

   (c) although amortisation would to some extent pre-empt the impairment test by making impairment losses less likely, that would not deprive users of financial statements of significant information because the impairment test provides only limited information. Since there is only a limited impact on the information provided (and also staff have recommended improvements to information provided to users of financial statements (see **Agenda Paper 18A Better disclosures for business combinations**)) the focus can therefore be on the arguments provided by other stakeholders, such as preparers, in relation to how amortisation helps reduce the cost and complexity of the subsequent accounting for goodwill.

26. Finally, in developing *IFRS for SMEs® Standard*, the Board concluded—for cost-benefit reasons, rather than for conceptual reasons—that goodwill and other indefinite-lived intangible assets should be amortised over their estimated useful lives, with a maximum amortisation period of ten years unless a longer useful life can be established reliably (see paragraphs BC108–BC112 of the Basis for Conclusions on *IFRS for SMEs* included as an extract in Appendix B). Hence the Board has already concluded that, for cost-benefit reasons, amortisation of goodwill could be an appropriate approach in at least some situations.

27. Therefore, proponents of reintroducing amortisation of goodwill argue that it is a cost-effective means of reducing the carrying amount of acquired goodwill, as the estimated future benefits the goodwill relates to are consumed or reduced, following evidence from the PIR of IFRS 3 and subsequent research that the expectations of the Board in developing IFRS 3 (and revising IAS 36) have not been met and addressing concerns of those stakeholders who believe carrying amounts of acquired goodwill could be overstated.

Arguments for retaining the impairment-only model

28. This section examines the following arguments for retaining the impairment-only model, focusing on those arguments for which the PIR of IFRS 3 and this research project provided new information:

    (a) the impairment-only approach provides more useful information; and

    (b) the objective of the impairment test is appropriate.

    Appendix A summarises other well-known and long-standing arguments for the impairment-only model.

Impairment-only approach provides more useful information

29. Evidence continues to support the view the Board had when finalising IFRS 3, that an amortisation charge provides users of an entity's financial statements with no useful information if the useful life is completely arbitrary. Although the feedback from the PIR of IFRS 3 has demonstrated that the benefit of the information provided to users

of an entity's financial statements by the impairment-only model may not be great as the Board had expected when developing IFRS 3, that model does still provide some useful information.

30. Some investors have informed us that the impairment-only approach is useful for relating the price paid to what was acquired and for calculating the return on invested capital, assessing stewardship by management and assessing whether an acquisition is working as expected. They have said that the information provided by the impairment test is useful, because it has a confirmatory value. In contrast, the staff think amortisation of goodwill can, in subsequent periods, obscure the price originally paid and so make it more difficult to assess stewardship. Additionally, amortisation reduces the opportunity for an impairment loss to occur. Thus, reintroducing amortisation may mask an impairment of goodwill, with some of the amortisation charge at times including impairment losses, reducing further the usefulness of the information provided by the impairment test. The reintroduction of amortisation would lower the quality of the information provided. It could be difficult to support the reintroduction of goodwill amortisation if the resulting information is less useful.

Objective of the impairment test is appropriate

31. It is possibly unclear in IAS 36 what the purpose of the impairment test of goodwill is. In fact, a representative of the Australian Accounting Standards Board (AASB) presented AASB Research Report 9 *Perspectives on IAS 36: A case for standard setting activity* to the April 2019 meeting of the Accounting Standards Advisory Forum and one of the recommendations contained within the paper was to 'clarify the purpose of the impairment testing requirements, and develop guidance explaining what the test is (and is not) intended to achieve' (see **Agenda Paper 18G Preliminary views** for further details).

32. The purpose of the impairment test is to ensure the recoverable amount of a cash-generating unit exceeds the carrying amount of the net assets (including the goodwill) of the cash-generating unit. Based on the work performed in this research project, the Board concluded it is not possible to amend the impairment test to target the acquired goodwill in isolation. The impairment test's design is therefore appropriate

considering that it is not possible to separately measure acquired goodwill and that the acquired goodwill generates cash flows jointly with the other assets and internally generated goodwill of the cash-generating unit.

33. Since this is the purpose of the impairment test, concerns about impairment losses on acquired goodwill being recognised ‘too late’ cannot be addressed through the impairment test, because it is not the purpose of the impairment test to test the acquired goodwill directly and the work performed in the research project has shown it is not possible to test the acquired goodwill directly.

34. The Board was aware of the shielding effect when it revised IAS 36 in 2004 and designed the impairment test. Paragraphs C37–C40 of the *Exposure Draft of Proposed Amendments to IAS 36* (2002 Exposure Draft) explained the Board’s consideration of the impact of pre-existing internally generated goodwill. The Board considered that impact in a different context—the 2002 Exposure Draft proposed a two-step impairment test.[5] Nevertheless, the staff believe the conclusions the Board reached then are still pertinent as they provide an insight into the Board’s consideration of whether and how an impairment test should deal with the shielding effect caused by pre-existing internally generated goodwill.

> C37. The Board considered whether, if all or part of an acquiree is integrated with an entity’s existing units, the measure of the net assets of those units should include the value of any unrecognised internally generated goodwill that existed within the units immediately before the business combination (pre-existing internally generated goodwill). If the measure of the net assets *excludes* pre-existing internally generated goodwill, that internally generated goodwill will be *included* within the implied value of goodwill, thereby providing a cushion against the recognition of impairment losses for the acquired goodwill.

[5] That test firstly compared the recoverable amount of a cash-generating unit to its carrying amount. Then, if the recoverable amount was below the carrying amount, the implied value of goodwill was calculated and compared to the carrying amount of the acquired goodwill to determine the impairment loss, if any, to recognise for goodwill. The Board was considering whether the pre-existing internally generated goodwill should be included in the implied value of goodwill.

C38. The Board agreed that it might be theoretically possible to remove the cushion created by pre-existing internally generated goodwill by including it within the measure of the unit's net assets. However, even if this were done, it does not ensure that the impairment test will capture only changes in the value of acquired goodwill. Because all goodwill operates jointly with other assets to generate cash flows, it is not possible for any impairment test to discern whether the pre-existing internally generated goodwill, rather than the acquired goodwill, has been impaired and replaced by goodwill generated after the business combination. In addition, a requirement to remove the cushion created by pre-existing internally generated goodwill would prove unworkable in practice for entities that regularly reorganise or restructure their operations. This is because when a reorganisation changes the composition of cash-generating units, it is unlikely that pre-existing internally generated goodwill could be traced to the reorganised units except arbitrarily.

C39. The Board was not as concerned about the cushion arising from pre-existing internally generated goodwill as it was about the cushions arising from other unrecognised identifiable assets or from unrecognised value attributable to recognised identifiable assets. Whereas the latter two cushions confuse different types of assets, the first does not. Therefore, the Board agreed that the revised Standard should not require an entity to attempt to identify, track and exclude from the implied value of goodwill any pre-existing internally generated goodwill.

C40. The Board observed that, as a result of this decision and its decision about the treatment of unrecognised identifiable assets and unrecognised value attributable to recognised identifiable assets, the impairment test for goodwill would ensure that the carrying amount of acquired goodwill is recoverable from the future cash flows expected to be generated by goodwill.

35. Paragraph BC135 of the Basis for Conclusions on IAS 36 goes on to note:

> BC135 The Board concluded that because it was not possible to measure separately goodwill generated internally after a business combination and to factor that measure into the impairment test for acquired goodwill, the carrying amount of goodwill will always be shielded from impairment by that internally generated goodwill. Therefore, the Board took the view that the objective of the goodwill impairment test could at best be to ensure that the carrying amount of goodwill is recoverable from future cash flows expected to be generated by both acquired goodwill and goodwill generated internally after the business combination.

36. Paragraph C38 of the 2002 Exposure Draft shows that the Board thought that all goodwill operates jointly with other assets to generate cash flows. The design of the existing impairment test reflects that thinking. The objective of the test is to ensure that the carrying amounts of goodwill, and of other assets within the unit containing goodwill, are recoverable from the cash flows jointly generated by these assets, together with the internally generated goodwill of the unit.

37. Some stakeholders may develop this view further and argue that all goodwill within a cash-generating unit is a single unit of account, and that acquired goodwill cannot be distinguished from, or separated from, goodwill generated internally within the cash-generating unit. Under this view, acquired goodwill is not distinct from goodwill generated internally and any attempt to distinguish between them does not portray any real economic phenomenon. This view is supported by not being able to separately measure the acquired goodwill. In paragraph BC134 of the Basis for Conclusions on IAS 36 the Board concludes that goodwill acquired in a business combination and goodwill generated after that business combination cannot be separately identified, because they contribute jointly to the same cash flows.

38. Additionally, in response to the 2002 Exposure Draft some respondents thought it inconsistent to consider goodwill separately for impairment testing when other assets within a unit are not considered separately but are instead considered as part of the unit as a whole, particularly given that goodwill, unlike many other assets, cannot generate cash inflows independently of other assets.

39. In fact, in paragraph B101 of the Basis for Conclusions on IAS 36 (1998), in rejecting a proposal relating to the impairment testing of individual assets in a cash-generating unit, the Board's predecessor, the International Accounting Standards Committee (IASC[6]), concluded that an impairment loss should be considered for a cash-generating unit as a whole and, consequently, individual assets within a cash-generating unit should not be considered separately.

40. Therefore, proponents of retaining the impairment-only approach continue to argue that the approach provides more relevant information than an amortisation model, and that the purpose of the impairment test is to ensure that the carrying amount of acquired goodwill is recoverable from the cash flows of the cash-generating unit that it jointly helps to generate and the existing impairment test continues to perform that purpose.

Staff analysis and recommendation

41. This section now analyses these sets of arguments further. In reviewing the arguments, it is worth remembering that the question facing the Board now is not to assess whether amortisation of goodwill is a conceptually better approach for the subsequent accounting of goodwill than an impairment-only approach. Instead, the question is whether there is a strong case to make a change to reintroduce the amortisation of goodwill, and whether the benefits, if any, of such a change would outweigh the cost and disruption that would be caused by changing the requirements again.

42. Proponents of reintroducing amortisation would conclude:

    (a) the feedback from the PIR of IFRS 3—that the impairment test is costly and complex, does not recognise impairment losses on a timely basis and provides only information of confirmatory value—is not what the Board expected when it issued IFRS 3 (and IAS 36) in 2004;

[6] For readability, we have used the 'Board' throughout the remainder of this paper regardless of whether we are referring to the conclusions of the IASC or of the Board.

(b) the feedback from the PIR of IFRS 3 suggests that the decision to change the subsequent accounting for goodwill from an amortisation model (with an impairment test) to an impairment-only approach may not meet a cost-benefit test if one was performed today;

(c) any loss of information to users of financial statements by reintroducing amortisation would be mitigated by the new disclosures the Board is considering (at this meeting);

(d) the purpose of the subsequent accounting for goodwill should be to reduce the carrying amount of acquired goodwill as the estimated future benefits of the related business combination reduce or are received;

(e) the work on the 'headroom approach' has highlighted more clearly the shielding effect of unrecognised headroom and has shown that it is not possible to amend the impairment test to achieve the purpose described in (d). Therefore, relying only on an impairment test could result in the overstatement of carrying amounts of acquired goodwill;

(f) the retention of acquired goodwill on the statement of financial position may mislead users into thinking that the business combination continues to be a success in cases when it may actually have failed;

(g) amortisation would reduce the pressure on the impairment test and is the only way to significantly reduce the cost and complexity of performing impairment tests. Feedback from stakeholders in the Basis for Conclusions on *IFRS for SMEs* (see Appendix B) illustrates this, with stakeholders arguing that amortisation reduces costs—even where an indicator trigger impairment-only approach was proposed; and

(h) amortisation reduces the carrying amount of acquired goodwill more quickly and in a more cost-effective way than an impairment-only approach does, targets the acquired goodwill in isolation, reduces the likelihood of an overstatement arising and thus is an appropriate response to the 'too late' issue.

43. Proponents of retaining the impairment-only approach would conclude:

(a) the Board's work has confirmed conclusions the Board reached in 2004 that it is not possible to measure the acquired goodwill directly post-acquisition, nor to amend the impairment test to target acquired goodwill in isolation;

(b) therefore the purpose of the impairment test should continue to be to ensure that the carrying amount of the acquired goodwill, together with the carrying amounts of the other (net) assets of the cash-generating unit, is supported by the cash flows jointly generated by the goodwill of the unit as a whole (ie acquired and internally generated) together with the other assets of the cash-generating unit;

(c) if the impairment test is operated correctly, the carrying amount of acquired goodwill is recoverable from the cash flows of the cash-generating unit it jointly contributes to generating. Thus, the carrying amount of acquired goodwill is not 'overstated' and concerns that impairment losses are recognised 'too late' cannot be addressed through the impairment test, because the purpose of the impairment test is not to test the acquired goodwill directly;

(d) the Board was aware of the shielding issue in 2004 as it developed IFRS 3 (and revised IAS 36) and the impact that it could have on the recognition of impairment losses. Therefore, this element of the PIR feedback and of the evidence obtained in this project is not unexpected;

(e) although the useful life of goodwill is often considered indefinite, it is not infinite. Although in principle it would be appropriate to amortise acquired goodwill over its useful life, it is not possible to estimate the period or pattern of consumption in any reasonable way, and so the amortisation expense is entirely arbitrary and will not provide useful information to users of financial statements. As a result, the information provided by the impairment-only approach is more useful for users (despite its limitations) than information provided by an amortisation model;

(f) the Board is also considering possible changes that could alleviate the cost and complexity of the impairment test, thus responding to that element of the feedback from the PIR of IFRS 3 (relief from the mandatory annual quantitative test and changes to the value in use calculation);

(g) reintroducing amortisation would not eliminate the need for impairment testing. Consequently, amortisation is unlikely to reduce costs of accounting for goodwill and impairment testing significantly in the first few years after an acquisition, unless amortisation is over an unrealistically short period. Furthermore, if a robust amortisation model is developed, it could increase complexity in accounting for goodwill, for example determining the useful life would be likely to be very judgemental. The feedback included in the Basis for Conclusions on *IFRS for SMEs* (see paragraph 42(g)) is in a different context—respondents acknowledged that many SMEs find it difficult to assess impairment as accurately as larger and listed entities and the information could be less reliable and thus the requirements for SMEs include a trigger based impairment test and a short maximum amortisation period (10 years, unless a longer useful life can be established reliably);

(h) informing users whether a business combination has been a success is not the purpose of the impairment test. As a result, if no impairment loss has been recognised on acquired goodwill, that fact does not automatically mean that the business combination has been a success nor does the carrying amount of acquired goodwill necessarily depict the original benefits from the business combination that still remain post-acquisition. The Board is exploring a possible disclosure requirement to provide users with information on the subsequent performance of an acquisition to enable users of financial statements to assess for themselves whether a business combination has been a success; and

(i) reintroducing amortisation does not solve the ‘too late’ issues that arise due to problems with the application of the impairment test (eg management optimism). In addition, where the useful life of goodwill is arbitrary, the carrying amount of acquired goodwill net of arbitrary amortisation charges would not necessarily depict the original benefits from the business combination significantly better than an impairment-only model.

44. One drawback of the impairment-only approach is that it labels all decreases in the carrying amount, including those caused by consumption of the goodwill, as impairment losses. For example, suppose that the carrying amount of goodwill is CU150[7] and that in the current period, the entity receives cash of CU100 reflecting some of those economic benefits. In substance, the entity has consumed CU100 of the goodwill and recovered it by converting it into cash. Nevertheless, applying the impairment test, if is there is no unrecognised headroom, the entity will need to recognise an impairment loss of CU100. In essence, the impairment-only approach mislabels any consumption of the benefits associated with the goodwill as an impairment loss.

45. On the other hand, amortisation risks mislabelling impairment losses as consumption. Suppose an entity has goodwill with a carrying amount of CU100 and amortises it over 10 years, with 4 years having passed so that the carrying amount is only CU60. Suppose it is clear that none of the benefits associated with the goodwill have been consumed and as a result of events that occurred in the current period, the value of the benefits the goodwill was associated with are now only CU70. The entity would recognise no impairment loss because the previous amortisation has already pre-empted the impairment loss. Thus, the amortisation approach in this case mislabels impairment losses as consumption.

46. Thus, in summary:

(a) The impairment-only approach risks mislabelling consumption as impairment losses.

(b) Amortisation risks pre-empting impairment losses and mislabelling them as consumption.

Neither model produces a perfect answer and stakeholders' preferences will depend on which arguments they give more weight to.

[7] CU = Currency Unit.

47. Stakeholders have always had opposing and strongly held views on the subsequent accounting for goodwill and whether to amortise goodwill, and their views are based on a number of opposing historical arguments (see Appendix A). The feedback received during the PIR of IFRS 3 and subsequently has not provided evidence that this diversity has decreased or of any new conceptual arguments.

48. Considering whether to reintroduce amortisation in the context of the feedback from the PIR of IFRS 3 and the findings of the project as outlined above also results in opposing arguments both for reintroducing amortisation and for retaining an impairment-only model. It is likely that stakeholders will have just as strong opinions on these arguments as they did on the historical arguments. The staff believe, in the light of the PIR of IFRS 3 and subsequent research findings in this project, that the arguments continue to be balanced, both models have limitations and there is therefore no strong case to reverse the Board's previous decision.

49. It is also arguable how persuasive the arguments for the reintroduction of amortisation are:

   (a) The key driver for proponents of reintroducing amortisation is a perception that the impairment test is 'broken' and that consequently there is a need to reduce the carrying amount of goodwill in some fashion to avoid overstatement of goodwill. However, if the impairment test is being performed properly, goodwill balances are not overstated—they are recoverable from the cash flows of the cash-generating unit.

   (b) The impairment test is not broken, it continues to perform the purpose the Board designed it to perform.

   (c) To the extent the acquired goodwill is no longer represented by the original benefits of the business combination the new disclosures on subsequent performance will help users better understand what the carrying amount of goodwill represents and what it does not.

   (d) Arbitrary reduction of the carrying amount of goodwill provides no useful information and in fact results in a loss of useful information (which the impairment of goodwill would ultimately have provided).

(e) It is not possible to determine and measure the original benefits from the business combination that remain at any point in time and therefore it is not possible to determine by how much to reduce the carrying amount of goodwill.

(f) If the impairment test is not being applied appropriately, introducing amortisation is not a solution for that problem.

50. Overall, the staff believe that a desire to reduce the carrying amount of goodwill is not a strong enough argument to reintroduce amortisation.

51. The staff believe the Discussion Paper gives the Board the opportunity to explore further the ‘too late’ issue and the basis of stakeholders’ concerns. Is it a misconception of the purpose of the impairment test, is it concern over the application of the test or is it simply that stakeholders do want to reduce carrying amounts of goodwill regardless of whether that reflects the pattern in which the goodwill has diminished? Once that is known, the Board can decide whether its preliminary view is the best reaction to this issue. The staff intend to draft for inclusion in the Discussion Paper an explanation of the design and purpose of the impairment test, acknowledging its limitations but explaining what it is designed to do and how, coupled with the additional disclosures on subsequent performance, it can provide useful information for users.

52. Furthermore, the Board has tentatively decided in the *Primary Financial Statements* project to propose requiring goodwill to be presented as a separate line item in the statement of financial position. This separate presentation would make the carrying amount of acquired goodwill more prominent to users of the financial statements. That could be helpful, given the inevitable limitations of any impairment test of acquired goodwill. A further presentation idea is also explored in **Agenda Paper 18C Presentation of total equity before goodwill subtotal**, namely whether to introduce a requirement to present a subtotal of equity before goodwill on the statement of financial position.

Staff recommendation

53. Although the staff acknowledge that there are arguments to support the reintroduction of amortisation, there are also arguments to retain an impairment-only approach. On balance, the staff do not believe there is strong enough evidence to justify reintroducing amortisation. The staff therefore recommend that the Board include in the Discussion Paper a preliminary view that the impairment-only model for goodwill should be retained.

54. The staff intend to draft for inclusion in the Discussion Paper an explanation of the design and purpose of the impairment test and the rationale for that design and purpose.

Question for the Board
1. Does the Board agree with the staff's recommendation in paragraph 53 for the Board to include in the Discussion Paper a preliminary view to retain the impairment-only approach for goodwill?

Other issues for consideration

55. If the Board decides to reintroduce amortisation, the Board would need to consider a number of more detailed follow up issues. **Agenda Paper 18B for the February 2016** Board meeting provided some initial analysis of these issues. The staff believe that listing these issues in the Discussion Paper will provide respondents with useful background information. The issues include:

(a) how goodwill differs from other intangible assets;

(b) how the useful life of goodwill should be determined:

(i) rebuttable presumption of a fixed period, for example 10 years;

(ii) selected based on facts and circumstances, unless the useful life cannot be established reliably and then a fixed period would be used; or

(iii) selected purely based on facts and circumstances;

(c) whether there should be an upper limit on that useful life:

(i) prescribed upper limit, for example 10 years, 20 years etc;

(ii) prescribed upper limit only if the useful life of goodwill cannot be established reliably;

(iii) rebuttable presumption that the useful life is less than an upper limit; or

(iv) no upper limit;

(d) how the amortisation method should be determined:

(i) prescribed straight-line basis;

(ii) straight-line method used unless there is persuasive evidence that another method is more appropriate;

(iii) determined on the basis of facts and circumstances, but straight-line basis used if the pattern in which the benefits are expected to be consumed cannot be determined reliably; or

(iv) determined purely on the basis of facts and circumstances;

(e) whether annual reassessment of the amortisation method and useful life should be required;

(f) whether all intangible assets should be amortised:

(i) allow goodwill and intangible assets to be classified as having indefinite lives;

(ii) restrict those assets that can be classified as having an indefinite life, for example only intangible assets not goodwill; or

(iii) no indefinite life classification;

(g) other effects of an amortisation and impairment model that may require consideration:

(i) allocation of impairment to amortisable units of goodwill (ie allocation of impairment to the goodwill amounts arising from different acquisitions); and

(ii) allocation of goodwill to amortisable units of goodwill on a disposal or reorganisation.

56. The staff plan to mention these items in the Discussion Paper but do not intend to perform any further work on them before drafting the Discussion Paper.

57. In addition to the issues listed above and analysed in the February 2016 Agenda Paper, the Board would also need to consider transition, for example, whether amortisation would be applied retrospectively.

Appendix A - Historical arguments

A1. This Appendix sets out a brief summary of the historical arguments supporting the reintroduction of amortisation and retaining the impairment-only approach based on feedback that the Board has received during the PIR of IFRS 3 and subsequent outreach, as well as views identified in the development of IFRS 3. These arguments include:

Arguments for reintroducing amortisation:

(a) Recognition of internally generated goodwill (paragraph A2)

(b) Reflects consumption of economic benefits (paragraphs A3–A4)

(c) Assessment of stewardship (paragraph A5)

(d) Consistency with other intangible and tangible fixed assets (paragraph A6)

(e) Ability to determine useful life of goodwill (paragraphs A7–A9)

(f) Cost-benefit of amortisation (paragraph A10)

(g) Reduce pressure to identify acquired intangible assets (paragraph A11)

(h) Consistency between entities (paragraph A12)

(i) Reduce earnings volatility (paragraph A13)

Arguments for retaining impairment-only model:

(a) Usefulness of information (paragraphs A14–A15)

(b) Amortisation is arbitrary (paragraphs A16–A18)

(c) Comparability between entities (paragraph A19)

Arguments for reintroducing amortisation

Recognition of internally generated goodwill

A2. Acquired goodwill is an asset that is consumed and replaced by internally generated goodwill over time. Amortisation ensures that the cost of acquired goodwill is recognised in profit or loss over time and no internally generated goodwill is recognised as an asset in its place. This is consistent with the prohibition in IAS 38 on the recognition of internally generated goodwill.

Reflects consumption of economic benefits

A3. Amortisation allocates the cost of acquired goodwill over the periods in which it is consumed and in which the benefits from the acquisition are realised. Goodwill has been paid for and so, sooner or later, it should have an impact on profit or loss.

A4. The term ‘impairment’ is usually perceived as associated with negative events, such as a bad investment decision. However, any impairment of goodwill recognised applying IAS 36 may not necessarily reflect a bad investment decision but may instead (or also) reflect consumption of acquired goodwill. If goodwill is amortised, the amortisation would capture the gradual consumption of goodwill and any impairment loss would capture separately losses from bad investment decisions or from subsequent events.

Assessment of stewardship

A5. Users can assess management’s stewardship more effectively if profit or loss includes not only the benefits generated by acquired goodwill, but also the cost of the portion consumed in the same period. In addition, amortisation may deter overpayment for acquisitions because any overpayment will affect earnings through the amortisation expense.

Consistency with other intangible and tangible fixed assets

A6. Some components of goodwill usually have a finite life, for example some expected synergies and an assembled workforce. Amortisation would be consistent with the approach taken for other intangible and tangible assets that have finite useful lives. Indeed, entities are required to determine the useful lives of items of property, plant and equipment, and allocate their depreciable amounts on a systematic basis over those useful lives. There is no conceptual reason for treating acquired goodwill differently.

Ability to determine useful life of goodwill

A7. Paragraph BC131E of the Basis for Conclusions on IAS 36 states that in the Board’s view, the useful life of goodwill cannot be reliably determined, and the resulting amortisation expense, could at best be described as an arbitrary estimate of the consumption of goodwill during the period.

A8. Some stakeholders challenge this conclusion. In their view, the useful life of goodwill can be reliably estimated and this is no more difficult than estimating the useful lives of tangible assets and intangible assets with finite useful lives. They believe amortisation could provide users with information that is more relevant.

A9. Even if the useful life of acquired goodwill cannot be predicted with a sufficiently low level of measurement uncertainty, systematic amortisation over an albeit arbitrary period provides an appropriate balance between conceptual soundness and operationality at an acceptable cost; it is the only practical solution to an intractable problem.

Cost-benefit of amortisation

A10. Paragraphs BC108–BC112 in the 2009 Basis for Conclusions on *IFRS for SMEs* state that the Board concluded for cost-benefit reasons, rather than conceptual reasons, that goodwill and other indefinite life intangible assets should be considered to have finite lives and amortised. The Board's main cost-benefit reasons for SMEs were:

(a) Smaller entities may find it difficult to assess impairment as accurately or as promptly as larger or listed entities, meaning the information could be less reliable.

(b) Amortisation, particularly if coupled with a relatively short maximum amortisation period, would reduce the circumstances in which an impairment calculation would be triggered.

Reduce pressure to identify acquired intangible assets

A11. If goodwill is amortised, this would reduce the pressure on the identification of intangible assets with finite lives because both goodwill and those intangible assets would be amortised.

Consistency between entities

A12. Amortising goodwill would improve comparability between companies that grow organically (ie without acquisition) and companies that grow through acquisitions, because the non-amortisation of goodwill discriminates against companies that grow organically.

Reduce earnings volatility

A13. During the PIR of IFRS 3, some investors supported amortisation of goodwill because it would result in profit or loss that is less volatile than when using an impairment-only model.

Arguments for retaining impairment-only model

Usefulness of information

A14. The Board's main reason for eliminating amortisation of goodwill in 2004 was its conclusion that assessing goodwill annually for impairment provides more useful information than an allocation of the cost via an amortisation charge, which depends on factors that are generally not possible to predict, such as the useful life of the acquired goodwill and the pattern in which it diminishes. In addition, many investors said that amortisation does not provide useful information and they would disregard it in their analysis.

A15. The Board was doubtful about the usefulness of an amortisation charge that reflects the consumption of acquired goodwill, when the internally generated goodwill replacing it is not recognised. Appendix B provides extracts from the Basis for Conclusions on IAS 36 on the Board's reasoning for moving from an amortisation model to an impairment-only model.

Amortisation is arbitrary

A16. The useful life of acquired goodwill and the pattern in which it diminishes generally are not possible to predict with a satisfactorily low level of measurement uncertainty, yet its amortisation depends on such predictions. As a result, the amount amortised in any given period can be described as at best an arbitrary estimate of the consumption of acquired goodwill during that period.

A17. The expected physical utility of a tangible fixed asset places an upper limit on the asset's useful life, making the determination of the useful lives of items of property, plant and equipment easier than the determination of the useful life of goodwill.

A18. By its nature, goodwill often has an indefinite life. If there is no foreseeable limit on the period during which an entity expects to consume future economic benefits embodied in goodwill, amortisation over an arbitrarily determined maximum period would not faithfully represent economic reality.

Comparability between entities

A19. Some think amortisation of goodwill is unfair to entities whose growth comes largely from acquisitions rather than internally, because of what they perceive to be a "doubling-up" of expenses within a reporting period as a result of expensing current outgoings that generate goodwill internally (such as advertising and research) and at the same time amortising goodwill.

Appendix B - Extracts from the Basis for Conclusions on IAS 36 *Impairment of Assets* and *IFRS for SMEs*

Extracts from the Basis for Conclusions on IAS 36

Testing goodwill for impairment (paragraphs 80–99)

BC131 [Deleted]

BC131A The Board concluded that goodwill should not be amortised and instead should be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. IAS 22 *Business Combinations* required acquired goodwill to be amortised on a systematic basis over the best estimate of its useful life. There was a rebuttable presumption that its useful life did not exceed twenty years from initial recognition. If that presumption was rebutted, acquired goodwill was required to be tested for impairment in accordance with the previous version of IAS 36 at least at each financial year-end, even if there was no indication that it was impaired.

BC131B In considering the appropriate accounting for acquired goodwill after its initial recognition, the Board examined the following three approaches:

(a) straight-line amortisation but with an impairment test whenever there is an indication that the goodwill might be impaired;

(b) non-amortisation but with an impairment test annually or more frequently if events or changes in circumstances indicate that the goodwill might be impaired; and

(c) permitting entities a choice between approaches (a) and (b).

BC131C The Board concluded, and the respondents to ED 3 *Business Combinations* that expressed a clear view on this issue generally agreed, that entities should not be allowed a choice between approaches (a) and (b). Permitting such choices impairs the usefulness of the information provided to users of financial statements because both comparability and reliability are diminished.

BC131D The respondents to ED 3 who expressed a clear view on this issue generally supported approach (a). They put forward the following arguments in support of that approach:

(a) acquired goodwill is an asset that is consumed and replaced by internally generated goodwill. Therefore, amortisation ensures that the acquired goodwill is recognised in profit or loss and no internally generated goodwill is recognised as an asset in its place, consistently with the general prohibition in IAS 38 on the recognition of internally generated goodwill.

(b) conceptually, amortisation is a method of allocating the cost of acquired goodwill over the periods it is consumed, and is consistent with the approach taken to other intangible and tangible fixed assets that do not have indefinite useful lives. Indeed, entities are required to determine the useful lives of items of property, plant and equipment, and allocate their depreciable amounts on a systematic basis over those useful lives. There is no conceptual reason for treating acquired goodwill differently.

(c) the useful life of acquired goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which that goodwill diminishes be known. However, systematic amortisation over an albeit arbitrary period provides an appropriate balance between conceptual soundness and operationality at an acceptable cost: it is the only practical solution to an intractable problem.

BC131E In considering these comments, the Board agreed that achieving an acceptable level of reliability in the form of representational faithfulness while striking some balance with what is practicable was the primary challenge it faced in deliberating the subsequent accounting for goodwill. The Board observed that the useful life of acquired goodwill and the pattern in which it diminishes generally are not possible to predict, yet its amortisation depends on such predictions. As a result, the amount amortised in any given period can be described as at best an arbitrary estimate of the consumption of acquired goodwill during that period. The Board acknowledged that if goodwill is an asset, in some sense it must be true that goodwill acquired in a business combination is being consumed and replaced by internally generated goodwill, provided that an entity is able to maintain the overall value of goodwill (by, for example, expending resources on advertising and customer service). However, consistently with the view it reached in developing ED 3, the Board remained doubtful about the usefulness of an amortisation charge that reflects the consumption of acquired goodwill, when the internally generated goodwill replacing it is not recognised. Therefore, the Board reaffirmed the conclusion it reached in developing ED 3 that straight-line amortisation of goodwill over an arbitrary period fails to provide useful information. The Board noted that both anecdotal and research evidence supports this view.

BC131F In considering respondents’ comments summarised in paragraph BC131D(b), the Board noted that although the useful lives of both goodwill and tangible fixed assets are directly related to the period over which they are expected to generate net cash inflows for the entity, the expected physical utility to the entity of a tangible fixed asset places an upper limit on the asset’s useful life. In other words, unlike goodwill, the useful life of a tangible fixed asset could never extend beyond the asset’s expected physical utility to the entity.

BC131G The Board reaffirmed the view it reached in developing ED 3 that if a rigorous and operational impairment test could be devised, more useful information would be provided to users of an entity’s financial statements under an approach in which goodwill is not amortised, but instead tested for impairment annually or more frequently if events or changes in circumstances indicate that the goodwill might be impaired. After considering respondents’ comments to the exposure draft of proposed amendments to IAS 36 on the form that such an impairment test should take, the Board concluded that a sufficiently rigorous and operational impairment test could be devised.

…

Extracts from the Basis for Conclusions on *IFRS for SMEs*

Amortisation and impairment of goodwill and other indefinite-lived intangible assets

BC108 In their responses to the recognition and measurement questionnaire and at the round-table meetings, many preparers and auditors of SMEs' financial statements said that the requirement in IAS 36 *Impairment of Assets* for an annual calculation of the recoverable amount of goodwill and other indefinite-lived intangible assets is onerous for SMEs because of the expertise and cost involved. They proposed, as an alternative, that SMEs should be required to calculate the recoverable amount of goodwill and other indefinite-lived intangible assets only if impairment is indicated. They proposed, further, that the *IFRS for SMEs* should include a list of indicators of impairment as guidance for SMEs. The Board agreed with those proposals. Respondents to the exposure draft supported the Board's decision on an indicator approach to impairment. Consequently, the *IFRS for SMEs* establishes an indicator approach and includes a list of indicators based on both internal and external sources of information. In addition if goodwill cannot be allocated to individual cash-generating units (or groups of cash-generating units) on a non-arbitrary basis, then the *IFRS for SMEs* provides relief by letting the entity test goodwill for impairment by determining the recoverable amount of the acquired entity in its entirety if the goodwill relates to an acquired entity that has not been integrated. If the goodwill relates to an entity that has been integrated into the group, the recoverable amount of the entire group of entities is tested.

BC109 Many respondents to the recognition and measurement questionnaire and participants in the round-table discussions favoured requiring amortisation of goodwill and other indefinite-lived intangible assets over a specified maximum period. Proposals generally ranged from 10 to 20 years. They argued that amortisation is simpler than an impairment approach, even an impairment approach that is triggered by indicators. In developing the exposure draft, the Board did not agree with that proposal for three main reasons:

(a) An amortisation approach still requires assessment of impairment, so it is actually a more complex approach than an indicator-triggered assessment of impairment.

(b) Amortisation is the systematic allocation of the cost of an asset, less any residual value, to reflect the consumption over time of the future economic benefits embodied in that asset over its useful life. By its nature, goodwill often has an indefinite life. Thus, if there is no foreseeable limit on the period during which an entity expects to consume the future economic benefits embodied in an asset, amortisation of that asset over, for example, an arbitrarily determined maximum period would not faithfully represent economic reality.

(c) When the IASB was developing IFRS 3 Business Combinations (as revised in 2008) and related amendments to IAS 38 Intangible Assets, most users of financial statements said they found little, if any, information content in the amortisation of goodwill over an arbitrary period of years.

Consequently, the exposure draft proposed an impairment-only approach to goodwill and other indefinite-lived intangible assets, combined with an indicator trigger for detailed impairment calculations.

BC110 Many respondents to the exposure draft disagreed with the proposal not to require amortisation of goodwill. In fact, the single accounting recognition and measurement proposal in the exposure draft that was most frequently recommended for reconsideration was non-amortisation of goodwill. The great majority of the respondents addressing this issue recommended that amortisation of goodwill should either be permitted or be required over a limited number of years. Many of those respondents acknowledged the need for impairment testing in addition to, but not as a substitute for, amortisation. Moreover, respondents who held this view also felt that SMEs should not be required to distinguish between intangible assets with finite and indefinite useful lives. At their meeting in April 2008, working group members unanimously supported requiring amortisation of all intangibles, including goodwill, subject to an impairment test.

BC111 Some respondents holding this view acknowledged that amortisation of goodwill and other indefinite-lived intangible assets may not be the most conceptually correct approach. However, from a practical standpoint, they pointed out that many smaller entities will find it difficult to assess impairment as accurately or as promptly as larger or listed entities, meaning the information could be less reliable. Amortisation, particularly if coupled with a relatively short maximum amortisation period, would reduce the circumstances in which an impairment calculation would be triggered. They also pointed out that in the context of SMEs, users of financial statements say they find little, if any, information content in goodwill at all; for example, lenders generally do not lend against goodwill as an asset.

BC112 After considering the various views expressed, the Board concluded—for cost-benefit reasons, rather than conceptual reasons—that goodwill and other indefinite-lived intangible assets should be considered to have finite lives. Therefore, such assets should be amortised over their estimated useful lives, with a maximum amortisation period of ten years. The assets must also be assessed for impairment using the 'indicator approach' in the *IFRS for SMEs*.

…