# NCI paper 1: Fair value of non-present ownership NCI components and their effects



## *Background*

The IASB (the Board) amended the definition of minority interest (MI) in IAS 27 and changed its name from MI to non-controlling interest (NCI). The amendment widened the scope of NCI to include 'non-present ownership instruments' such as options, warrants, etc. This was noted in the November 2009 IFRIC Update and the 2009 Annual Improvements ED (proposed amendment to IFRS 3.19, see also BC1).

IFRS 3 requires NCI to be measured either at their acquisition date fair value or at the NCI's proportionate share of the acquiree's identifiable net assets (the proportionate share approach). The 2009 Annual Improvements ED, changed this such that the proportionate share approach is only applicable to present ownership instruments that are entitled to a pro rata share of the entity's net assets in the event of liquidation. Other components of NCI are measured at fair value or other measurement bases as required by IFRSs. The Board observed that "without this amendment, if the acquirer chooses to measure NCI at is proportionate share of the acquiree's identifiable net assets; the acquirer might measure some equity instruments at nil. In the Board's view, this would result in not recognising economic interests that the other parties have in the acquire". IFRIC is currently reviewing two examples illustrating the application requirements on the measurement of NCI.

Given the proposed amendment, it is clear that non-present ownership interest (NPOI) is part of NCI and it needs to be fair valued for purposes of determining total goodwill to be recognised in a business combination. However, there is no guidance on how NPOI should be taken into account in subsequent impairment tests. We have identified two practical issues that may necessitate additional guidance be added to IAS 36 when finalizing the annual improvements project.

## *Issues related to subsequent impairment test*

Issue 1: How is the 'gross up' to be performed when there is NPOI included in NCI?

For purposes of the IAS 36 impairment test, paragraph C4 of IAS 36 requires the grossing up of the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the NCI if the proportionate share approach is used to value NCI that comprises present ownership interests. The adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.

Issue 2: How is the impairment loss allocated between the parent and the NCI when there is NPOI?

IAS 36.C6 states that the impairment loss is allocated to the parent and the NCI on the same basis as that on which profit or loss is allocated (generally follows ownership interests). This means any impairment loss would not be allocated to NPOIs because they do not represent present ownership interests. Accordingly, their balances will remain until the NPOIs either expire or are exercised.

NCI paper 1 – Example 1 (see separate file) illustrates the above issues.

This will also impact how goodwill is allocated when there are subsequent transactions involving an increase/decrease in ownership interest without loss of contract as we discuss in paper 2.

To minimize further questions and diversity in practice, we believe some guidance should be included in IAS 36 as to the impact on goodwill impairment testing.

**NCI paper 1 - Example 1**

*These examples assume that the subsidiary is a CGU on its own and its only asset is goodwill.*

Example 1 fact pattern: Parent paid CU320 for 80% of an entity with no assets and fair value of NCI is 75 and fair value of NPOI is 5.

| | FV approach | | PS approach | |
|---|---|---|---|---|
| Amount paidby parent | 320 | a | 320 | |
| Fair value of NPOI | 5 | b | 5 | |
| Fair value of NCI | 75 | c | 0 | e |
| Total goodwill | 400 | d=a+b+c | 325 | f=a+b+e |

**Issues with the allocation of goodwill:**

How is the goodwill 'gross up'performed under the proportionate share approach? Do we gross up using the parent's goodwill of 320 (Example 2 below) or the total recognised goodwill of 325 (Example 3 below)?

a) The grossed up goodwill in Example 2 is calculated by grossing up the parent'sshare of goodwill (based on its ownership of 80%). The unrecognised NCI balance of 75 is a balancing figure (400-320 - 5). Alternatively the total goodwill could be calculaed by grossing up the parents' share of goodwill and then adding the goodwill allocated to NPOI. In this example total goodwill being 405 (400+5)

b) The grossed up goodwill in Example 3 is calculated by the total goodwill dividing by the parent ownership of 80%.

**Issues with subsequent impairment loss allocation:**

As profit and therefore impairment losses are allocated based on ownership interest, NPOI never receive a share. A balance remains even when goodwill is fully impaired as shown in all three examples. The parent or the present ownership NCI absorbe their share of the impairment losses, which may result in an understatement of the respective equity balances.

| | Example 1 | | | | Example 2 | | | | Example 3 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Fair value approach | | | | Proportionate share - use parent goodwill and parent interest for gross up | | | | Proportionate share - use total goodwill and parent interest for gross up | | | |
| | **Total** | **Parent** | **NCI** | **NPOI** | **Total** | **Parent** | **NCI** | **NPOI** | **Total** | **Parent** | **NCI** | **NPOI** |
| Ownership interest/P&L allocation% | 100% | 80% | 20% | 0% | **100%** | 80% | 20% | 0% | **100%** | 80% | 20% | 0% |
| Date of acquisition - goodwill recognised in consol FS | **400** | **320** | **75** | **5** | **325** | **320** | | **5** | **325** | **320** | | **5** |
| Subsequent measurement 1 - carrying amount of goodwill | **400** | **320** | **75** | **5** | **400** | **320** | 75 | **5** | **406** | **320** | 81 | **5** |
| Management determined that recoverable of goodwill is 300 | **300** | | | | **300** | | | | **300** | | | |
| Impairment loss in respect to carrying amount allocated 80/20 | **-100** | **-80** | **-20** | **0** | **-100** | **-80** | - 20 | **-** | **-106** | **-85** | - 21 | **-** |
| Adjusted carrying amount of goodwill on consol FS | **300** | **240** | **55** | **5** | **300** | **240** | 55 | **5** | **300** | **235** | 60 | **5** |
| Subsequent measurement 2 - carrying amount of goodwill | **300** | **240** | **55** | **5** | **300** | **240** | 55 | **5** | **300** | **235** | 60 | **5** |
| Management determined that recoverable amount of goodwill is zero | **0** | | | | **0** | | | | **0** | | | |
| Impairment loss in respect to carrying amount allocated 80/20 | **-300** | **-240** | **-60** | **0** | **-300** | **-240** | -60 | **-** | **-300** | **-240** | -60 | **-** |
| Adjusted carrying amount of goodwill on consol FS | **0** | **0** | **-5** | **5** | **0** | **0** | -5 | **5** | **0** | **-5** | 0 | **5** |

**NCI paper 2: Non-controlling interest (NCI) and impairment testing: disproportionate goodwill balances between parent and NCI (i.e. the effects of control premium)**



***Background***

For a business combination, IFRS 3 allows the acquirer (or parent) to measure NCI in the acquiree either at fair value (the fair value approach, also known as the full goodwill method – this was not an option under pre2009 IFRS 3) or at the NCI's proportionate share of the acquiree's identifiable net assets (the proportionate share approach, also known as the partial goodwill method).

IFRS 3 recognises that the fair value of the acquirer's interest in the acquiree and the NCI on a per-share basis might differ and the main difference is likely to be the inclusion of a control premium or, conversely, a minority discount (IFRS 3.B45). Accordingly, goodwill may be attributed to the parent and the NCI disproportionate to their relative ownership interests (for example, parent may have only 80% ownership but is allocated 95% of the goodwill). However, IAS 36 requires impairment loss to be allocated between the parent and the NCI on the same basis as that on which profit or loss is allocated which generally follows the ownership percentages (IAS 36.C6).

*Fair value approach*

If the acquirer measures NCI initially at fair value, it recognises the goodwill that is attributable to the parent and the NCI in its consolidated financial statements. The fair value of NCI and the acquiree's identifiable net assets are both determined at the date of acquisition. Therefore, the goodwill attributable to the parent and the NCI can be calculated (for example, if the total identifiable net assets attributable to NCI is 100 and fair value of NCI is 120, then goodwill attributable to NCI is 20).

When goodwill recognised in respect of the parent and the NCI are not in the same proportion as their respective ownership interests (i.e. caused by control premium), there is a mismatch of the bases in which the goodwill is recognised and the related subsequent impairment loss (if any) is allocated. This may result in the NCI absorbing a disproportionately larger share of the impairment losses, which may result in an over/understatement of parent's equity/NCI and may impact the loss/gain upon for example a subsequent change in ownership resulting in the loss of control.

*Proportionate share approach*

If the acquirer measures NCI initially under this approach, it does not recognise the goodwill that is attributable to NCI in its consolidated financial statements. The goodwill attributable to the parent is determined at the date of the initial combination, but the amount attributable to NCI is not, although it can be determined in the same way as under the fair value approach. For purpose of the IAS 36 impairment test, paragraph C4 of IAS 36 requires the grossing up of the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the NCI. The adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired. However, there is no guidance on how to do the 'gross up' other than the illustration in Example 7A of IAS 36 which is based on proportionate ownership.

Issue when goodwill recognised in respect of the parent and the NCI are not in the same proportion as their relative ownership interests (i.e. caused by control premium):

1) Following the 'notional gross up' approach in Example 7A, we found some rather strange outcomes when the goodwill attributable to the parent includes a control premium.

2) Similar to the fair value approach, there may be a mismatch of the bases in which the goodwill is recognised and the related subsequent impairment loss (if any) is allocated.

***Example***

NCI paper 2 – Example 1 (see separate file) illustrates the effects when goodwill attributed to the parent and the NCI are not proportionate to their respective ownership interests (i.e. caused by control premium) under the fair value and the proportionate share approach.

The example illustrates the following key points:

- If the Example 7A approach is used, the carrying amount under the partial goodwill method would be higher than the full goodwill method (475 versus 400 in the example). This difference is not justifiable based on the relevant economics.
- The impairment loss allocation following IAS 36 is based on ownership percentages rather than the goodwill allocation percentages. This mismatch may cause goodwill attributable to NCI to go negative when the parent has a control premium because the loss allocated to NCI is higher than its allocated goodwill.

***Questions***

1. Is it the Board's intention that example 7A is the only approach to performing the gross up exercise?
2. If no, would the Board entertain adding some words to the application guidance in Appendix C or in the text of the illustrative example to state this?
3. If yes, we urge the Board to consider amending this to allow another approach, which takes out the effects of the control premium, such as the following:
    - Full goodwill method - allow allocation of goodwill impairment loss between the parent and the NCI relative to their allocated goodwill (e.g. if goodwill is allocated between the parent and the NCI 95% and 5%, respectively, then the impairment loss is allocated based on the same percentages). Alternatively, require that the loss allocable to NCI is only to the extent of the NCI's allocated goodwill (e.g. if goodwill allocated to the NCI is 20 then any loss beyond 20 would be reallocated to the parent).
    - Partial goodwill method – the 'gross up' method should take into account the effect of disproportionate goodwill balances between the parent and the NCI (i.e. caused by a control premium) is allowed and subsequently allow allocation of goodwill impairment loss between the parent and the NCI relative to their allocated goodwill.

**NCI paper 2 - Example 1**

*The following examples assume that the subsidiary is a CGU on its own and its only asset is goodwill.*

Example 1 fact pattern: Parent paid CU380 for 80% of an entity with no assets and fair value of NCI is 20. Parent's payment of 380 includes a control premium.

| | FV approach | PS approach |
|---|---|---|
| Amount paid by parent | 380 a | 380 a |
| Fair value of NCI | 20 b | 0 b |
| Total goodwill | 400 c=(a+b) | 380 c=(a+b) |

**Example 1 Goodwill is not allocated in proportion to ownership interests**

| | Control premium | | | | | | |
|---|---|---|---|---|---|---|---|
| | Fair value | | | Proportionate share | | | |
| | **Total** | **Parent** | **NCI** | **Total** | **Parent** | **NCI** | |
| Ownership interest/P&L allocation% | 100% | 80% | 20% | 100% | 80% | 20% | |
| Goodwill % | 100% | 95% | 5% | 100% | 95% | 5% | |
| Date of acquisition - goodwill recognised in consol FS (based on 95/5) | **400** | **380** | **20** | 380 | **380** | | |
| Subsequent measurement 1 - carrying amount of goodwill | **400** | **380** | **20** | 475 | **380** | 95 | 1 |
| Management determined that recoverable of goodwill is 300 | **300** | | | 300 | | | |
| Impairment loss in respect to carrying amount allocated 80/20 | **-100** | **-80** | **-20** | -175 | **-140** | -35 | 1 |
| Adjusted carrying amount of goodwill on consol FS | **300** | **300** | **0** | 300 | **240** | 60 | |
| Subsequent measurement 2 - carrying amount of goodwill | **300** | **300** | **0** | 300 | **240** | 60 | |
| Management determined that recoverable amount of goodwill is zero | **0** | | | 0 | | | |
| Impairment loss in respect to carrying amount allocated 80/20 | **-300** | **-240** | **-60** | -300 | **-240** | -60 | |
| Adjusted carrying amount of goodwill on consol FS | **0** | **60** | **-60** | 0 | **0** | 0 | |
| | | 4 | 2 | | 4 | | |

Example 2 fact pattern: Parent paid CU320 for 80% of an entity with no assets and fair value of NCI is 80. Goodwill is allocated proportionate to ownership interests.

| | FV approach | PS approach |
|---|---|---|
| Amount paid by parent | 320 a | 320 a |
| Fair value of NCI | 80 b | 0 b |
| Total goodwill | 400 c=(a+b) | 320 c=(a+b) |

**Example 2 Goodwill is allocated in proportion to ownership interests**

| | No control premium | | | | | | |
|---|---|---|---|---|---|---|---|
| | Fair value | | | Proportionate share | | | |
| | **Total** | **Parent** | **NCI** | **Total** | **Parent** | **NCI** | |
| Ownership interest/P&L allocation% | 100% | 80% | 20% | 100% | 80% | 20% | |
| Goodwill % | 100% | 80% | 20% | 100% | 80% | 20% | |
| Date of acquisition - goodwill recognised in consol FS (based on 80/20) | **400** | **320** | **80** | 320 | **320** | | |
| Subsequent measurement 1 - carrying amount of goodwill | **400** | **320** | **80** | 400 | **320** | 80 | |
| Management determined that recoverable of goodwill is 300 | **300** | | | 300 | | | |
| Impairment loss in respect to carrying amount allocated 80/20 | **-100** | **-80** | **-20** | -100 | **-80** | -20 | |
| Adjusted carrying amount of goodwill on consol FS | **300** | **240** | **60** | 300 | **240** | 60 | |
| Subsequent measurement 2 - carrying amount of goodwill | **300** | **240** | **60** | 300 | **240** | 60 | |
| Management determined that recoverable amount of goodwill is zero | **0** | | | 0 | | | |
| Impairment loss in respect to carrying amount allocated 80/20 | **-300** | **-240** | **-60** | -300 | **-240** | -60 | |
| Adjusted carrying amount of goodwill on consol FS | **0** | **0** | **0** | 0 | **0** | 0 | |
| | | 4 | | | 4 | | |

3

**Issues illustrated by the above examples:**

1 Grossing up based on the parent's balance (with control premium) creates a higher value (475) under the proportionate share approach than the fair value approach (400) in Example 1. This results in a higher loss being allocated to the parent (140 vs. 80) under the proportionate share approach. Also if the recoverable amount is between 400 and 475 (for example 425), there would be no impairment under the fair value approach but an impairment of 50 under the proportionate share approach.

2 The mismatch in the allocation of goodwill and the allocation of the related losses results in NCI absorbing a larger share of the losses.

3 There is no difference between the two approaches if there is no control premium in parent's goodwill as illustrated in Example 2.

4 Parent's balances differ between having control premium versus not under both the fair value and the proportionate share apporach. The remaining credit and debit balances in Example 1 represent the remaining parent's equity and (negative) NCI balances when the goodwill is fully impaired.

## NCI paper 3: Subsequent acquisition or disposition of shares that does not result in loss of control



This paper primarily looks at the issues that arise under the partial goodwill method, particularly the implications on impairment testing although the matters discussed have implications on other areas such as gains/losses on disposal.

*Background*

For a business combination, IFRS 3 allows the acquirer (or parent) to measure non-controlling interest (NCI) in the acquiree at the NCI's proportionate share of the acquiree's identifiable net assets. Goodwill attributable to NCI is not recognised on the consolidated financial statements under this approach (known as the partial goodwill method). If an entity takes the partial goodwill approach, paragraph C4 of IAS 36 requires the entity to 'gross up' the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the NCI. The adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit (CGU) is impaired.

Subsequent ownership changes (interests purchased or sold by the parent) that do not result in the change of control are required to be accounted for as equity transactions (IAS 27.30). IAS 27.BC41 also specifically states that "no change in the carrying amounts of the subsidiary's assets (including goodwill) or liability should be recognised as a result of such transactions."

While the above standards set out the framework in respect to the purchases and sales of NCI that do not result in change of control, a number of application issues are not specifically addressed in these standards. The issues in summary are as follows:

1) How to 'gross up' the carrying amount of goodwill allocated to the CGU to include the goodwill attributable to the NCI for impairment testing purposes?

2) How to allocate and recognise impairment losses relating to NCI?

3) How to reallocate goodwill associated with the change in ownership interests when the goodwill allocated to parent and NCI are not proportionate to their respective ownership interests (i.e. caused by control premium)?

*Fact pattern*

A business combination was initially accounted for using the partial goodwill method. The parent purchased 80% of the entity. The subsidiary is in itself a CGU. The following are the relevant initial balances (shaded numbers are not recognised in the consolidated financial statements).

| | Share of net assets | Share of goodwill | Total |
|---|---|---|---|
| Parent | 800 | 400 | 1200 |
| NCI | 200 | 100 | 300 |
| | 1000 | 500 | 1500 |

The grossed up carrying amount of the goodwill at initial measurement was 500 (400/80%). This assumes that there is no control premium.

One year later, the parent sells a 10% share. The goodwill associated with the interests sold is reallocated based on the ownership percentages as at the date of the original combination because while there is a change in economic interests there is no basis for remeasurement. Taking the fact pattern above, if the parent sold 10% ownership interest for CU275 then 50 (10%/80%*400) of the recognised goodwill is reattributed to NCI. Taking the same fact pattern, but the parent instead purchased 10% for CU275 then no goodwill is reattributed to the parent because an entity cannot reattribute unrecognized goodwill in the consolidated financial statements.

This result in the following journal entries in the consolidated financial statements:

Sale of 10% share for cash of 275:

| | | |
|---|---|---|
| Cash | 275 | |
| NCI (100+50) | | 150 |
| Parent Equity | | 125 |

Purchase of 10% share for cash of 275:

| | | |
|---|---|---|
| Cash | | 275 |
| NCI | 100 | |
| Parent Equity | 175 | |

The above reattribution is performed within equity, thus no effect to the recognised goodwill. The examples above are based on a simple fact pattern, whereby goodwill related to the parent and the NCI are proportionate to their respective ownership interests. We discuss how to reallocate goodwill associated with the change in ownership interests when the goodwill allocated to the parent and the NCI are not proportionate to their respective ownership interests (i.e. caused by a control premium) in Issues 3 below.

### Issue 1: How is the goodwill 'gross up' performed

'Gross up' is clearly required when there is NCI (IAS 36.C4). However, it is unclear how such 'gross up' is performed when there are subsequent changes in the ownership between parent and NCI, without a loss of control, as illustrated above.

*View 1*

The adjusted notional amount for the purpose of IAS 36 impairment testing should be the same as at the date of the initial combination because the subsequent transactions are not considered 'significant economic events', therefore they would not warrant a remeasurement of the carrying amount of the CGU or the goodwill. Therefore, the notionally adjusted carrying amount of the goodwill at initial measurement of 500 (unless there are impairment losses in earlier periods or changes in the CGU's composition) should be included in the carrying amount of the CGU for purpose of the impairment test.

This could be calculated by grossing up the original percentages of ownership, resulting in an amount of 500 (400/80%) being tested.

Application of this view when all NCI is acquired. *View 1a*

This view is based on the fact that C4 requires a 'gross up' to compensate for the fact that goodwill attributable to the NCI is included in the recoverable amount, but not in the carrying amount. Following an acquisition of all of the NCI there is still an unrecognised goodwill not include in the carrying amount, while it is included in the recoverable amount. For this reason, a 'gross up' would still be necessary.

*View 1b*

Following an acquisition of all of the NCI, C4 is interpreted as the 'gross up' is no longer required because there is no more NCI. IAS 36.C4 states "**if an entity measures non-controlling interests** as its proportionate interest in the net identifiable assets of a subsidiary at the acquisition date, rather than at fair value, goodwill attributable to non-controlling interests is included in the recoverable amount of the related cash-generating unit but is not recognised in the parent's consolidated financial statements. As a consequence, an entity shall gross up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired." This suggests View 1a is only applicable when there is NCI.

*View 2*

The 'gross up' of the recognised goodwill (i.e. 400) is based on the percentages as at the date of the impairment test (e.g. current interests) because this would follow the impairment loss allocation under IAS 36. For example, if the parent (following the same fact pattern) buys 10% ownership interest, the adjusted notional amount would be 444 (400/90%). This would be lower than the original notional amount. If the parent had sold 10% ownership (following the same fact pattern, the adjusted notional amount would still be 500 (350/70%). This is because an entity cannot reattribute unrecognised goodwill as mentioned above.

Under this view no 'gross up' would be required when the parent acquires all of the NCI and the subsidiary becomes wholly owned by the parent because the requirement in C4 is only a consequence of an entity having NCI as noted in View 1b above.

Under this view the 'gross up' is only required to compensate for the effect that the parent is not entitled to the full recoverable amount. Once such entitlement is attained, there would be no further need to perform the 'gross up'. Although an additional amount of goodwill may have been paid for the remaining interest, it should not be tested for impairment because it has not been recognised in the consolidated balance sheet. This is in line with the fact that IFRS is primarily based on the measurement of assets and liabilities and not on determining profit or loss.

**Which of the views would you find acceptable; are there other alternative views?**

**Issue 2: How to allocate and recognise impairment losses relating to NCI?**

IAS 36 provides the following guidance on impairment losses relating to NCI:

- IAS36.C4 requires an entity to determine its impairment loss by comparing its recoverable amount to its carrying amount (including 'gross up' for unrecognised goodwill attributable to NCI).
- IAS36.C6 requires an entity to allocate the impairment loss between parent and NCI on the same basis as that on which profit or loss is allocated.
- IAS36.C8 states that if an impairment loss is attributable to NCI for which no goodwill has been recognised, such loss is not recognised.

These requirements are clear if the partial goodwill method is applied and no goodwill has been recognised in respect of NCI. However, if goodwill has been reattributed to NCI as a result of a partial sale of the parent's ownership, without loss of control, these requirements are less straightforward to apply. While impairment losses are allocated to NCI in accordance with IAS36.C6, IAS 36.C8 doesn't specifically define an allocation method between the recognised and the unrecognised goodwill attributable to NCI.

We have identified three alternatives. See NCI paper 3 – Example 1 (separate file) for more details.

| **Summary of views in Example 1** | **View 1** | **View 2** | **View 3** |
|---|---|---|---|
| Loss allocation between recognised and unrecognised NCI goodwill | • Apportion based on proportion of recognised NCI goodwill to total NCI goodwill; any amount not applied to recognised goodwill is not recognised in the p&l | • Write off recognised NCI goodwill first; any excess not recognised | • Allocate losses first to unrecognised NCI goodwill (not p&l), excess is applied to recognised NCI goodwill |

*View 1*

This approach is most aligned with the economics and the accounting of the transaction. The fact that the impairment test requires the 'gross up' of the carrying amount of goodwill creates the basis to use the same principle for recognising the related impairment write-off. In other words, the write off is against the grossed up carrying

amount of the goodwill attributable to the NCI. The loss allocation is apportioned between the recognised and the unrecognised but because the entity cannot reattribute unrecognised goodwill in the consolidated financial statements the portion allocated to unrecognised is not recognised. While the standard does not clearly proscribe a specific allocation approach, this method is mostly in line with IAS 36.C8.

*View 2*

This view would find its basis in IAS36.104 (by analogy). While IAS 36.104 does not address this specific situation, it requires any recognised goodwill to be written off first. Therefore, it would seem logical to write-off the recognised NCI goodwill first. However, this rationale would also apply when no goodwill is attributed to the NCI and would therefore seem to conflict with IAS 36.C8.

*View 3*

Under this approach, the rationale is that an entity primarily tests for whether the goodwill attributable to the NCI can be fully recovered rather than whether any recognised goodwill is impaired. Therefore, any impairment loss would be charged against the unrecognised NCI goodwill first. However, under this approach there would be no need to 'gross up' the goodwill in the first place and would therefore seem to conflict with IAS36.C4.

**Which of the methods described would be acceptable; are thereother alternative methods?**

**Issue 3: How is goodwill associated with the change in ownership interests, reallocated when the goodwill allocated to parent and NCI are not proportionate to their respective ownership interests (i.e. caused by a control premium)?**

In the fact pattern set out above, the assumption is that the unrecognised goodwill attributed to the NCI is proportionate to its ownership interests. However, there may be situations where the goodwill attribution is not proportionate to the ownership interests, for example, when there is control premium (see NCI paper 1 – Control premium for further discussion). This is relevant to the fair value approach as well as the proportionate share approach.

*View 1*

Goodwill is reallocated, to the extent recognised, based on the goodwill initially allocated the parent. This approach considers that the parent being the dominate shareholder and the fact that its goodwill is the only amount that is recognised under the proportionate share approach. Therefore, the parent's goodwill is the most relevant basis for any reallocation.

*View 2*

Goodwill is reallocated, to the extent recognised, based on the goodwill initially allocated to the NCI. This approach considers the fact that there is no change in control, therefore,

any subsequent reallocation to minority interests should based on the initial goodwill attributable to NCI because it has been adjusted for any minority discount.

The differences between the two Views are illustrated in NCI paper 3 – Example 2 (see separate file, for both the proportionate share approach and the fair value approach.

**Which of the methods described would be acceptable; are there other alternative methods?**

**NCI paper 3 - Example 1**

| Initial acquisition | Total | Parent | NCI |
|---|---|---|---|
| Ownership interest | 100% | 80% | 20% |
| Gross goodwill | 500 | 400 | 100 |
| Recognized goodwill | 400 | 400 | 0 |
| Unrecognised goodwill | 100 | 0 | 100 |

One year later the parent sells 10% of shares and re-attributes goodwill to NCI:

| | Total | Parent | NCI |
|---|---|---|---|
| Ownership interest | 100% | 70% | 30% |
| Gross goodwill | 500 | 350 | 150 |
| Recognized goodwill | 400 | 350 | 50 |
| Unrecognised goodwill | 100 | 0 | 100 |

| Impairment test | | | |
|---|---|---|---|
| Recoverable amount | 200 | | |
| Gross goodwill | 500 | | |
| **Gross goodwill impairment loss** | **-300** | **-210** | **-90** |
| Recognized goodwill | 400 | 350 | 50 |
| Unrecognised goodwill | 100 | 0 | 100 |

| **Summary of views** | **View 1** | **View 2** | **View 3** |
|---|---|---|---|
| Goodwill attributable to NCI | 150 | | |
| NCI goodwill recognised (reattributed from parent) | 50 | | |
| Impairment loss attributable to NCI | 90 | | |
| Loss allocation between recognised and unrecognised NCI goodwill | • Apportion based on proportion of recognised NCI goodwill to total NCI goodwill (eg, 50/150); any excess not applied to recognised goodwill is not recognised in the p&l (ie only 30 (1/3 of 90) is recognised in the P&L). | • Write off recognised NCI goodwill first (ie 50); any excess not recognised<br>or<br>Impairment loss is recognised to the extent the goodwill is recognised (ie 50) | • Allocate losses first to unrecognised NCI goodwill, excess is applied to recognised NCI goodwill. In this case, no P&L effect as there is a 100 in unrecognised goodwill attributable to NCI. |
| Resulting impairment losses allocated to NCI | • Impairment losses allocated to recognised goodwill and recognised in the p&l = 30<br>• Impairment losses not recognised in profit or loss = 60 | • Impairment losses recognised in the p&l = 50<br>• Impairment losses not recognised in the p&l = 40 | • Impairment loss recognised in profit or loss = 0<br>• Impairment losses not recognised in profit or loss =90 |
| NCI goodwill recognised in the balance sheet after impairment | 20 | 0 | 50 |

**NCI paper 3 - Example 2**
**Goodwill considering control premium**

**Proportionate share approach**

| | | Share of net assets | Share of goodwill | Total |
|---|---|---|---|---|
| Parent | 80% | 800 | 450 | 1250 |
| NCI | 20% | 200 | 50 | 250 |
| | | 1000 | 500 | 1500 |

= unrecognized

**Decrease in ownership percentage**
Parent sells 10% to NCI for amount of 275

| *View 1* | *Calculation* | | |
|---|---|---|---|
| Dt Cash | | 275 | |
| Cr NCI | *100+10%/80%*450* | | 156.25 |
| Cr Equity | | | 118.75 |

| *View 2* | | | |
|---|---|---|---|
| Dt Cash | | 275 | |
| Cr NCI | *100+10%/20%*50* | | 125 |
| Cr Equity | | | 150 |

**Increase in ownership percentage**
Parent acquires 10% of NCI for amount of 275

| | | | |
|---|---|---|---|
| Cr Cash | | | 275 |
| Dt NCI | *100+10%/20%* | 100 | |
| Dt Equity | | 175 | |

**Fair value approach**

| | | Share of net assets | Share of goodwill | Total |
|---|---|---|---|---|
| Parent | 80% | 800 | 450 | 1250 |
| NCI | 20% | 200 | 50 | 250 |
| | | 1000 | 500 | 1500 |

**Decrease in ownership percentage**
Parent sells 10% to NCI for amount of 275

| *View 1* | *Calculation* | | |
|---|---|---|---|
| Dt Cash | | 275 | |
| Cr NCI | *100+10%/80%*450* | | 156.25 |
| Cr Equity | | | 118.75 |

| *View 2* | | | |
|---|---|---|---|
| Dt Cash | | 275 | |
| Cr NCI | *100+10%/20%*50* | | 125 |
| Cr Equity | | | 150 |

**Increase in ownership percentage**
Parent acquires 10% of NCI for amount of 275

| | | | |
|---|---|---|---|
| Cr Cash | | | 275 |
| Dt NCI | *100+10%/20%*50* | 125 | |
| Dt Equity | | 150 | |

Note: In the examples above, the control premium paid by the parent is 250. Therefore under View 2, the portion of goodwill allocated could also be determined as a proportion of the parent's goodwill less control premium (i.e., 10/80*200).