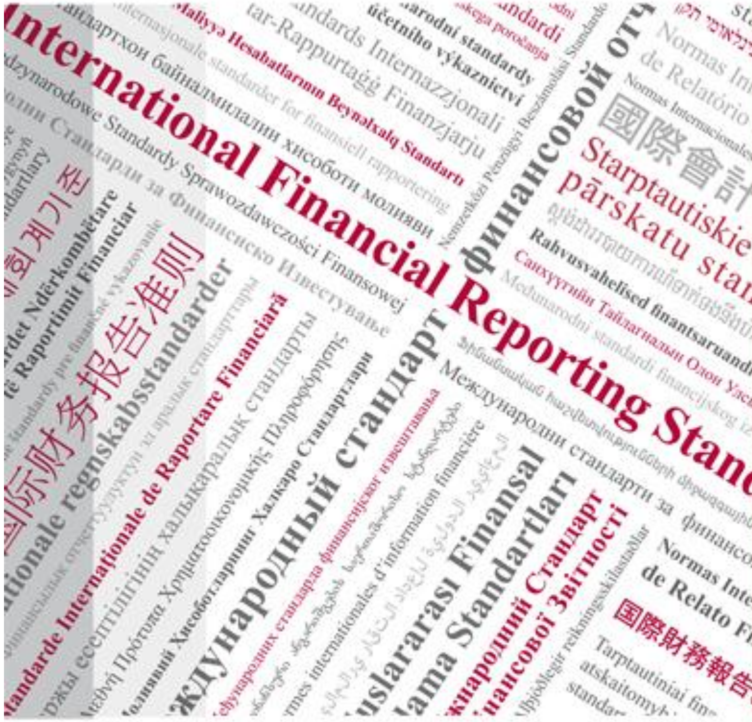
International Financial Reporting Standards



Post-implementation Review of IFRS 3 *Business Combinations*

CMAC/GPF Meeting 30 June 2014

Breakout session 1 (Agenda Paper 5A)

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

IFRS™

Agenda

- Separate recognition of intangible assets from goodwill.
- Non-amortisation of goodwill and indefinite-lived intangible assets

Separate recognition of intangible assets from goodwill

Questions for CMAC members:

- Do you find the separate recognition of intangible assets (such as customer lists and internally generated brand names) useful? If so, why?
- How does it contribute to your understanding and analysis of the acquired business?
- Do you think changes are needed and, if so, what are they and why?

Questions for GPF members

- What are the main implementation challenges in the separate recognition of intangible assets from goodwill?
- What are the main implementation challenges in the measurement of customer-related and internally generated intangible assets?
- What do you think are the main causes of those challenges?

Non-amortisation of goodwill and indefinite-lived intangible assets

Questions for CMAC members:

- How useful have you found the information obtained from the impairment test of goodwill, and why?
- Do you think that improvements are needed regarding the information provided by the impairment test? If so, what are they?
- Do you think that the amortisation of goodwill would provide useful information? If so, why?

Questions for GPF members

- What are the main implementation challenges in testing goodwill for impairment, and why?
- Would you be able to estimate the useful life of goodwill? If so, what would you suggest as a reasonable amortisation period and why?

Impairment disclosures—Example

The following is an adapted excerpt of the impairment note of a public company. **Should this be further improved?**

Impairment

Impairment losses

The net impairment losses recognised in the consolidated income statement, as a separate line item within operating profit, in respect of goodwill, licences and property, plant and equipment are as follows:

		20X2	20X1	20X0
Cash generating unit	**Reportable Segment**	CUm	CUm	CUm
Country A	Country A	3,000	1,500	—
Country B	Country B	750	2,400	—
Country C	Country C	500	1,500	—
Country D	Country D	—	—	2,700
		4,250	**5,400**	**2,700**

Pre-tax adjusted discount rates

The impairment losses were based on value in use calculations. The pre-tax adjusted discount rates used in the value in use calculations are as follows:

Pre-tax adjusted discount rates	20X2	20X1	20X0
Country A	14.20%	13.10%	—
Country B	12.50%	13.50%	—
Country C	18.50%	15.25%	—
Country D			14.75%

Information also provided by the company for the years ended 20X1 and 20X0.

Of the total impairment charge for the year (CU4,250m), CU4,000m relates to goodwill and CU250 m relates to licences and property, plant and equipment.

The impairment charges were principally driven by:

* increased discount rates due to ….; and

* lower cash flows within business plans because of ….

Impairment disclosures—Example continued

Key assumptions used in the value in use calculations

Assumption	How determined
Budgeted EBITDA	...
Budgeted capital expenditure	...
Long-term growth rate	...
Pre-tax risk adjusted discount rate	...

Sensitivity to changes in assumptions

Other than as disclosed below, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any cash generating unit to exceed its recoverable amount.

31 December 20X2

The estimated recoverable amounts of the Group's operations in Country A, Country B and Country C equalled their respective carrying values and, consequently, any adverse change in key assumption would, in isolation, cause a further impairment loss to be recognised.
The follwing table shows the key assumptions used in value in use calculations:

Assumptions used in value in use calculations	Country A	Country B	Country C
Pre-tax adjusted discount rate	14.20%	12.50%	18.50%
Long-term growth rate	1.0%	1.4%	0.8%
Budgeted EBITDA	(2.2)	2.5	(5.5)
Budgeted capital expenditure	7.3-9.5	7.2-9.2	6.2-8.5

(*)

(*): information also provided by the company for the year ended 20X1.

The changes to assumptions used in the impairment test would, in isolation, lead to an (increase)/decrease to the aggregate impairment losses recognised in the year ended 31 December 20X2.

	Country A		Country B		Country C	
Changes to the assumptions used	Increase by 2pps	Decrease by 2pps	Increase by 2pps	Decrease by 2pps	Increase by 2pps	Decrease by 2pps
Pre-tax adjusted discount rate	(1.1)	1.5	(1.3)	0.8	(0.1)	0.1
Long-term growth rate	1.5	(1.8)	1.3	(1.6)	0.02	(0.03)
Budgeted EBITDA	1.9	(1.3)	(0.5)	0.6	0.02	(0.03)
Budgeted capital expenditure	(1.4)	0.8	1.2	0.8	(0.1)	0.1

(*)

Thank you


individual comments
questions
comment
expressions of individual views
comments
feedback
questions
feedback
questions or comments
expressions of individual views
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