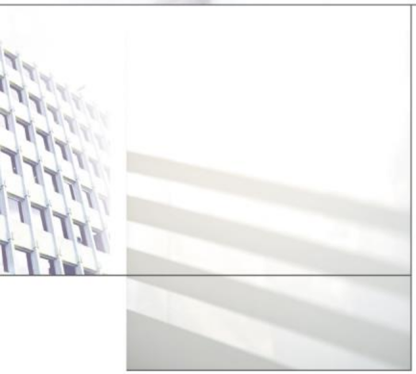

EFRAG

European Financial Reporting Advisory Group

ASBJ FASF

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ASBJ, EFRAG & OIC Research Group Paper: *Should Goodwill still not be Amortised?*

ASAF Meeting, London September 2014

Purpose of the project

- EFRAG/OIC and ASBJ conducted surveys to collect input on relevance and limitations of the impairment-only approach for goodwill.
- The Research Group assessed possible changes and improvements in the areas:
  - Initial and subsequent accounting;
  - Impairment test;
  - Disclosure on impairment test.

Main messages

- An amortisation and impairment approach for goodwill is appropriate and can be applied with an adequate level of verifiability and reliability (slides 6-8).
- There are areas for improvement to the impairment test (slide 9).
- There are areas for improvement to the disclosure in IAS 36 (slide 10).

What we learnt from surveys

An impairment-only approach replaces acquired goodwill with internally generated goodwill.

Some users find impairment losses relevant, others less.

Impairment test is complex and judgmental.

Impairment losses are recognised too late.

Goodwill: alternative approaches

<table>
<tr><th>Alternative approach</th><th>Research Group conclusion</th></tr>
<tr><td>Discernible element approach.</td><td>Conceptually interesting, but too complex in practice.</td></tr>
<tr><td>Immediate write-off to equity.</td><td rowspan="2">• We think goodwill qualifies as an asset.
• If goodwill had value at day 1, the value of an asset should not be zero at day 2.</td></tr>
<tr><td>Immediate write-off to profit or loss.</td></tr>
<tr><td>Impairment and amortisation approach.</td><td>It reflects the economic consumption of goodwill and can be applied with reasonable estimates.</td></tr>
</table>

Amortisation and impairment approach

- The amortisation and impairment approach:
  - Addresses the concern about capitalisation of internally generated goodwill;
  - Mitigates the risk of delaying the recognition of impairment losses;
  - Still requires judgment in assessing the useful life of goodwill, but this is true for other tangible and intangible assets.

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Assessing the useful life of the goodwill

General principle

Application guidance

Rebuttable presumption

Assessing the useful life of the goodwill

General principle	Goodwill should be amortised over the period in which it is expected to give rise to its effects.
Application guidance	• Use all relevant information and give greater weight to objective evidence.
Factors to consider	• Expected period of excess earnings. • Expected payback period. • Residual useful life of primary asset (or weighted average residual useful life of group of assets)
Rebuttable presumption	• Useful life should not exceed 10 or 20 years.

Improving IAS 36 – areas of focus

- Identification of CGUs.
- Inputs and methods to determine recoverable amount of CGUs:
  – Reflecting the expected manner of recovery.
  – Current use of other models.
- Assessing the discount rate:
  – Pre-tax rate versus post-tax rate.

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Enhancing disclosures in IAS 36

Assess the quality of assumptions	• Timing profile of value in use • Inputs to the discount rate
Assess reasonableness of past assumptions	• Analysis of variances
Assisting to predict likelihood of future impairment	• Performance of acquired business • Management expectation of goodwill consumption • Acquisition characteristics

What we ask to constituents

- Do they support amortisation of goodwill with impairment test? If so, for what reasons?
- If goodwill amortisation is reintroduced, what guidance is needed on assessing the useful life?
- What improvements are needed in impairment test and disclosures in IAS 36?

Related issues

- Goodwill is not the only intangible asset subject to an ‘impairment only’ approach.
  - If amortisation is reintroduced for goodwill, should it be extended to all intangible assets?
  - If amortisation of goodwill is reintroduced, should this affect the requirement to separate all identifiable intangible assets in a business combination?