

STAFF PAPER

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Accounting Standards Advisory Forum

Project	Goodwill and impairment		
Paper topic	ASAF Cover Paper		
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Objective of this meeting

1. The objective of this meeting is to:
 - (a) give ASAF members an update on the work that has taken place in the goodwill and impairment project.
 - (b) ask ASAF members:
 - (i) for feedback on the IASB's initial discussions in its goodwill and impairment project; and
 - (ii) for advice on the way forward with the project.

Structure of this paper

2. This paper includes the following sections:
 - (a) List of IASB agenda papers included with this cover paper
 - (b) Background
 - (c) Questions for ASAF

List of IASB agenda papers included with this cover paper

3. October 2015 IASB agenda papers:
 - (a) October Agenda Paper 18: Cover Paper

- (b) October Agenda Paper 18A: Subsequent accounting for goodwill
 - (c) October Agenda Paper 18B: Improving the impairment test
4. November 2015 IASB agenda papers:
- (a) November Agenda Paper 18A: Identification and measurement of intangible assets acquired in a business combination
 - (b) November Agenda Paper 18B: Feedback from users of financial statements about information on goodwill and impairment
 - (c) November Agenda Paper 18C: Appendices accompanying November Agenda Papers 18A and 18B (for reference only)

Background

5. In February 2015, based on its findings during the Post-implementation Review (PIR) of IFRS 3 *Business Combinations* the IASB added to its research agenda the following areas of focus (collectively covered by the goodwill and impairment project):
- (a) improving the impairment test in IAS 36 *Impairment of Assets*;
 - (b) subsequent accounting for goodwill (including the relative merits of an impairment-only approach and an amortisation and impairment approach); and
 - (c) identification and measurement of intangible assets acquired in a business combination.

September 2015 IASB/FASB meeting

6. In September 2015 the IASB and the FASB had a joint meeting to discuss the timing and overlap of their respective projects. The FASB has active projects on its agenda for public business entities and not-for-profit entities looking at accounting for goodwill, including impairment, and separately for the accounting for identifiable intangibles in a business combination.

7. Currently neither the IASB nor the FASB has reached a consensus on its approach for addressing these issues. However, the FASB staff have conducted research and outreach on alternatives for the FASB's consideration and the FASB has had several discussions.
8. At the September meeting the IASB staff highlighted the interrelationship of the three issues in paragraph 4 and provided a number of possible approaches that could be considered for addressing the issues. In the light of the interrelationships and possible new approaches that could be considered the staff suggested that a Discussion Paper might need to be considered as the next due process step, rather than proceeding to an Exposure Draft.
9. No decisions were made by the two Boards at the September meeting. However the staff think the following points came out of that meeting for the IASB to consider going forward:
 - (a) The IASB needs a strong argument to support making further significant changes to IFRS 3. Stakeholders have always had opposing and strongly held views on accounting for goodwill (in particular amortisation versus non-amortisation) and the feedback during the PIR did not provide evidence that this diversity has decreased.
 - (b) The form of due process document (Exposure Draft versus Discussion Paper) should depend on the nature of any proposals being made by the IASB (this discussion is covered in paragraphs 18-21 of October Agenda Paper 18 in more detail).
 - (c) IFRS 3 *Business Combinations* and Statement 141R *Business Combinations* (codified in Topic 805 of the Accounting Standards Codification) of the US Financial Accounting Standards Board (FASB) are converged standards. There is strong support for the IASB to stay converged with the FASB where possible. The best approach to achieve this would be for both Boards to work together and make any decisions about potential amendments to Standards jointly.
 - (d) The IASB should have its own discussion initially on the three topics before further discussing the topics with the FASB.

October 2015 IASB meeting

10. At the October meeting the IASB started its discussions on two of the three topics:
These were:
 - (a) subsequent accounting for goodwill; and
 - (b) improving the impairment test.
11. This was not intended to be a decision making meeting and so no decisions were made. The IASB asked the staff to perform additional work to understand better what information users of financial statements want to receive about goodwill and impairment to inform the IASB's future discussions.

October 2015 FASB meeting

12. At its meeting in October 2015 the FASB discussed issues on the accounting for identifiable intangible assets in a business combination. The FASB decided to continue this project by continuing to engage with the international community on this matter. In particular, the FASB directed the staff to research whether the usefulness of information provided by the recognition of acquired intangible assets is different for US and international investors and if so, why that difference exists.
13. The FASB also discussed whether and how to change the subsequent measurement of goodwill and made the following decisions:
 - (a) The FASB decided to proceed with the project under a phased approach. The first phase is to simplify the impairment test by removing the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value (step 2 of the impairment model in US GAAP). The FASB considered but decided not to allow entities an option to perform step 2.
 - (b) In the second phase of the project, the FASB plans to work concurrently with the IASB to address any additional concerns about the subsequent accounting for goodwill.

Aim of the November 2015 IASB meeting

14. At the time of preparing this paper, the agenda papers for the IASB November 2015 meeting had been prepared, but the meeting had not yet taken place. At the November meeting the staff will ask the IASB to discuss the third topic, identification and measurement of intangible assets and also consider a staff summary of the feedback we have heard so far about what investors want to receive about goodwill and impairment. This is not intended to be a decision making meeting.
15. The staff will give ASAF members an oral update of the discussions at the November 2015 meeting.

Questions for ASAF members

16. The IASB has had initial discussions on all three topics covered by this project. No decisions have yet been made. The staff welcome feedback and advice on the way forward on the project from ASAF members.

Questions

- 1) Do ASAF members have any comments on the approaches in the IASB agenda papers or on the IASB's initial discussions on its goodwill and impairment project?
- 2) Do ASAF members have any advice on the way forward with the project (for example the next steps, the appropriate due process document, working with the FASB, etc)?