

STAFF PAPER

October 2015

IASB Meeting

Project	Goodwill and impairment project		
Paper topic	Cover Paper		
CONTACT(S)	Michelle Fisher	mfisher@ifrs.org	+44(0) 20 7246 6918

This paper has been prepared for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Objective of this meeting

1. The objective of this meeting is for the International Accounting Standards Board (IASB) to discuss the two topics assessed as highly significant in the Post-implementation Review (PIR) of IFRS 3 *Business Combinations*.

Structure of this paper

2. This paper includes the following sections:
 - (a) List of October 2015 meeting papers
 - (b) Background
 - (c) September 2015 IASB/FASB meeting
 - (d) Aim of the October and November IASB 2015 meetings
 - (e) Work performed by others
 - (f) Due process document
 - (g) Appendix A: Summary of FASB meetings on their related project
 - (h) Appendix B: Proposed timetable

The IASB is the independent standard-setting body of the IFRS Foundation, a not-for-profit corporation promoting the adoption of IFRSs. For more information visit www.ifrs.org

The Financial Accounting Standards Board (FASB), is the national standard-setter of the United States, responsible for establishing standards of financial accounting that govern the preparation of financial reports by nongovernmental entities. For more information visit www.fasb.org

List of October 2015 meeting papers

3. IASB staff papers:
 - (a) Agenda Paper 18: Cover Paper (this agenda paper)
 - (b) Agenda Paper 18A: Subsequent accounting for goodwill
 - (c) Agenda Paper 18B: Improving the impairment test

Background

4. In February 2015, based on its findings during the PIR of IFRS 3 the IASB added to its research agenda the following areas of focus:
 - (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.
5. 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. However, the IASB and FASB do not have converged requirements for impairment of non-financial assets. Constituents of both Boards have expressed a desire for the Board's standards to remain converged where possible.

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 goodwill (which includes impairments) 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 light of the interrelations and possible new approaches that could be considered the staff suggested that a Discussion Paper should be considered as the next due process step, rather than proceeding to an Exposure Draft.
9. No decisions were made by the 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 subsequent 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. If we can proceed directly to an Exposure Draft we should do so in order to move more quickly.
 - (c) 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.

Aim of the October and November 2015 IASB meetings

10. At this October meeting the staff would like the IASB to discuss the two topics assessed as of high significance in the PIR. These are:
 - (a) subsequent accounting for goodwill; and
 - (b) improving the impairment test.
11. At the November meeting the staff would like the IASB to discuss the third topic, identification and measurement of intangible assets. This was assessed as medium/high significance in the PIR.
12. After discussing the three interrelated topics the IASB can discuss its views on all three topics, consider their interactions and have a discussion about the most appropriate due process document to work towards. The staff would like the IASB to wait and have this discussion at the November meeting once all three issues have been discussed.

Work performed by others

13. During this project the IASB can benefit from the research and work performed by others including the FASB and a research group consisting of individuals from the European Financial Reporting Advisory Group (EFRAG), the Organismo Italiano di Contabilità (OIC), and the Accounting Standards Board of Japan (ASBJ) (referred to as the EFRAG/OIC/ASBJ Research Group for the purpose of these agenda papers).
14. At the September 2015 meeting the FASB staff presented a paper that provided summary of their outreach and work to date on accounting for goodwill for public business entities and not for profits project (see IASB Agenda Paper 13E/FASB Memo No 6 for the September meeting). A list of the FASB meetings where this project was discussed has been included in Appendix A of this agenda paper for reference.
15. In September 2015 IASB Agenda Paper 13E the FASB also included a summary of the work performed by the EFRAG/OIC/ASBJ Research Group on accounting

for goodwill and impairment (see paragraphs 21-40 of that agenda paper). Further details of the work of the EFRAG/OIC/ASBJ Research Group can be accessed on their project page here: <http://www.efrag.org/Front/p261-2-272/Proactive---Goodwill-impairment-and-amortisation.aspx>. The ASBJ's research paper on amortisation of goodwill is available on the ASBJ website:

https://www.asb.or.jp/asb/asb_e/international_activities/discussion_research/20150519.jsp.

16. The staff also highlight that the EFRAG/OIC/ASBJ Research Group presented a paper to the International Forum of Accounting Standard Setters (IFASS) at the September 2015 IFASS meeting providing an update on its work. That paper titled *Discussion of Goodwill Project Update* explains that the EFRAG/OIC/ASBJ Research Group are now focusing on assessing how to apply annual amortisation to goodwill and are discussing possible improvements to aspects of the impairment model.
17. The staff have referred to work and conclusions of the FASB and the EFRAG/OIC/ASBJ Research Group in Agenda Papers 18A and 18B for this meeting when analysing the approaches for the IASB to consider.

Due process document

18. At the ASAF meeting in March 2015, ASAF members stated there may be no need for the IASB to issue a Discussion Paper because they think it is unlikely to provide additional information.
19. The staff acknowledge that we have a good understanding of the main problems relating to the three topics in paragraphs 4(a)-(c) from the PIR and we can benefit from research and work performed by the FASB and the EFRAG/OIC/ASBJ Research Group. However, the staff think the decision on whether to go down an Exposure Draft route or a Discussion Paper route should depend on the nature of the proposals being issued by the IASB. The staff think we should issue a Discussion Paper only if we think we need more information or more consultation before proposing changes (once we decide what we think those changes are likely

to be) or think we are likely to uncover any significant new information during the public comment period. For example if we are proposing to make changes based on approaches that have been discussed extensively by the IASB and for which considerable research exists then it is likely that we could proceed directly to an Exposure Draft. However, if we are looking for broader feedback on new approaches or feel we need to develop greater consensus on proposals where we are not sure how they will be received, then a Discussion Paper may be a more effective mechanism to seek this wider feedback and allow for a more open consultation.

20. Furthermore, any significant changes proposed by the IASB to address one of the three topics in paragraphs 4(a)-(c) may affect both the views of respondents about other topics and the IASB's own assessment of those topics. For example if the IASB decides to make significant changes to the composition of goodwill (for example by subsuming customer related or other intangibles in goodwill) this may affect views of respondents on subsequent accounting for goodwill. Consequently, it may be difficult to develop a proposal for one issue without understanding how this would affect the views of respondents on other issues. This understanding may best be developed through a Discussion Paper that outlines the various approaches and their interrelations.
21. The staff are not asking the IASB to discuss or provide a view on the most appropriate due process document at this meeting. This is because the staff do not think that the IASB can have a discussion about the most appropriate output from the project until it has discussed all three topics. However the staff think that IASB members should bear this analysis in mind as they discuss the issues.

Appendix A: Summary of FASB meetings on their project *Accounting for Goodwill for Public Business Entities and Not-for-Profit Entities*

- A1. At the September 2015 meeting the FASB staff presented a paper summarising their progress to date on their project looking at accounting for goodwill for public business entities and not-for-profit entities (See IASB Agenda Reference 13E for that meeting).
- A2. The following are the meetings held to date by the FASB on this topic with brief summaries based on the minutes on their website.

Meeting date	Summary
November 2013	<p>The FASB added the project to its agenda with the objective to reduce the cost and complexity of the subsequent accounting for goodwill for public business entities and not-for-profit entities.</p> <p>The project was added to the FASB's agenda at the same meeting the FASB endorsed the Private Company Council (PCC) recommendation for private companies for the subsequent measurement of goodwill (the PCC alternative).</p> <p>The FASB directed the staff to perform additional outreach and research on the following four alternatives for public business entities and not-for-profit entities:</p> <ol style="list-style-type: none"> 1. The PCC alternative. Amortise goodwill over 10 years or less than 10 years if an entity demonstrates that another useful life is more appropriate. An entity would make an accounting policy election to test goodwill for impairment at the entity level or at the reporting unit level. It would test goodwill for impairment only when a triggering event occurs. An impairment loss would be measured as the difference between the carrying value of the entity and its fair value (if goodwill is tested for impairment at the entity level) or the carrying value of the reporting unit and its fair value (if goodwill is tested for impairment at the reporting unit level). This alternative is consistent with the alternative available for private companies. 2. Amortisation of goodwill (with impairment tests) over its useful life not to exceed a maximum number of years. 3. Direct write-off of goodwill. 4. Simplified impairment test.
February 2014	<p>The FASB considered the four alternatives. No decisions were made at the meeting.</p> <p>The FASB directed the staff to perform additional research and outreach with public business entity stakeholders about the alternatives, including (1)</p>

	<p>direct write-off with disclosures about acquisitions and (2) a simplified impairment test.</p>
<p>March 2014</p>	<p>The FASB continued its discussion of the four alternatives.</p> <p>The staff updated the FASB on the outcome of additional research and outreach conducted on the direct write-off approach and the simplified impairment test, undertaken after the February 2014 meeting.</p> <p>The FASB made no decisions at this meeting.</p>
<p>November 2014</p>	<p>The FASB discussed additional outreach and research performed by the staff on the subsequent measurement of goodwill, including the results of the IASB's PIR of IFRS 3, and the results of a study on the use of the qualitative assessment introduced in FASB Accounting Standards Update No. 2011-08, <i>Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment</i>.</p> <p>The FASB also directed the staff to perform additional research on the amortisation of goodwill, with a focus on identifying the most appropriate useful life if goodwill were amortised, and on simplifying the impairment test.</p> <p>The FASB asked the staff to consider the implications of potentially subsuming intangible assets into goodwill (the accounting for intangible assets is part of a separate but related project that was added to the FASB's agenda in November 2014) in conjunction with its additional research and to consider IASB activities on goodwill and intangible assets in response to its PIR on IFRS 3.</p>
<p>April 2015</p>	<p>The FASB met to discuss issues relating to the development of an Exposure Draft addressing accounting for goodwill.</p> <p>The FASB has not yet determined the timing of the release of that Exposure Draft.</p> <p>The staff updated the FASB on the status of the project. The FASB made no technical decisions.</p>
<p>September 2015</p>	<p>Joint meeting with the IASB.</p>

Appendix B: Proposed timetable

Expected date	Activity
October 2015	IASB discussion about subsequent accounting for goodwill and improving the impairment test.
November 2015	IASB discussion about identification and measurement of intangible assets and the type of due process document to work towards.