

## STAFF PAPER

April 2016

## IASB Meeting

<b>Project</b>	<b>Goodwill and impairment project</b>		
<b>Paper topic</b>	Cover Paper		
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**Objective of this meeting**

1. The objective of this meeting is to further develop and discuss ways to improve the impairment test for goodwill.

**Structure of this paper**

2. This paper includes the following sections:
  - (a) List of April 2016 meeting papers
  - (b) Project update
  - (c) Proposed way forward and expected timetable
  - (d) Appendix: Background to the project.

**List of April 2016 meeting papers**

3. Agenda papers for this meeting:
  - (a) Agenda Paper 18: Cover paper (this agenda paper)
  - (b) Agenda Paper 18A: The pre-acquisition headroom approach to impairment testing.

## Project update

4. At the February 2016 Board meeting some Board members asked the staff to provide certain quantitative information about the amount and trends of reported goodwill, impairment and intangible assets over recent years. The staff are working with staff at the Accounting Standards Board of Japan (ASBJ), the European Financial Reporting Advisory Group (EFRAG) and the US Financial Accounting Standards Board (FASB) to gather this information. We expect to bring this analysis to the May 2016 Board meeting.
5. At the March 2016 Board meeting some Board members asked the staff to further develop their proposal for a possible modification to the impairment test to address users' concerns about late recognition of impairment losses and overstatement of goodwill. The staff have presented their further analysis in Agenda Paper 18A for this meeting.
6. Following the March 2016 Board meeting, the staff are also performing research in the following areas:
  - (a) how the existing requirements for customer relationship intangible assets in a business combination were developed and how they were intended to be applied.
  - (b) working with our internal research team to identify what information entities are currently communicating to investors about:
    - (i) key performance assumptions or targets supporting the purchase price paid for an acquiree; and
    - (ii) how the actual performance of the acquisition measured up against the key performance targets.

This information will help to inform our future discussions about disclosure requirements in this project.

## Proposed way forward and expected timetable

### ***Concurrent phases of the project***

7. The staff envisage the project continuing in two concurrent phases:
- (a) Phase One (joint decisions on joint papers with the FASB): Considering the following two issues with the FASB:
    - (i) whether to include any intangible assets in goodwill, rather than recognising them separately; and
    - (ii) subsequent accounting for goodwill, in particular whether to reconsider an amortisation approach for goodwill.
  - (b) Phase Two (separate IASB papers and discussions, with co-operation with the FASB): Considering improvements to the impairment requirements in IAS 36 *Impairment of Assets*. The staff note that the FASB is proceeding with an Exposure Draft to simplify the US GAAP impairment model. Consequently, the staff think that, at least initially, possible improvements to our impairment model should be discussed separately by the Board to understand the direction we wish to take.

### ***Timetable***

<b>Board meeting</b>	<b>Activity</b>
May 2016	Presentation of quantitative information described in paragraph 4.  Update on research in paragraph 6.
June 2016	Joint education session with the FASB.

## Appendix A: Background to the project

### Background

- A1. In February 2015, on the basis of its findings during the Post-implementation Review (PIR) of IFRS 3 *Business Combinations*, the Board added the following three topics to the assessment phase of its research agenda (collectively covered by the goodwill and impairment project):
- (a) improving the impairment test in IAS 36;
  - (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.
- A2. This project was added to the research agenda because, although we have a good understanding of the main problems relating to the three topics from the PIR and work performed by others, it is not yet sufficiently clear which problem – or package of problems – needs to be solved. Nor is it yet sufficiently clear what the most promising way forward is.

### September 2015 IASB/FASB meeting

- A3. In September 2015 the Board had a joint meeting with the FASB 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 subsequent accounting for goodwill, accounting for goodwill impairment, and accounting for identifiable intangibles in a business combination.
- A4. At the September meeting the IASB staff highlighted the interrelationship of the three issues in paragraph A1 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.

- A5. 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 Board to consider going forward:
- (a) The Board 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 of views 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 Board.
  - (c) IFRS 3 and Statement 141R *Business Combinations* (codified in Topic 805 of the Accounting Standards Codification) of the FASB are converged standards. There is strong support for the Board 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 Board should have its own discussion initially on the three topics before further discussing the topics with the FASB.

### **October 2015 and January 2016 FASB meetings**

- A6. 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.

- A7. In October 2015, 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 (ie the FASB has proposed to remove Step 2 of the impairment model in US GAAP). The FASB considered allowing entities an option to perform Step 2 but decided not to do so.
  - (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.
- A8. At its January 2016 meeting the FASB directed the staff to draft a proposed Accounting Standards Update for vote by written ballot that would simplify the impairment test in US GAAP, with a comment period of 60 days. This exposure document is expected to be issued in the second quarter of 2016.

### **October 2015, November 2015 and February 2016 Board meetings**

- A9. The Board started its discussions on the three topics in paragraph A1(a)-(c). The meetings were not intended to be decision-making meetings and so no decisions were made.

### **March 2016 Board meeting**

- A10. At the March 2016 meeting the Board discussed the following areas:
- (c) a possible modification to the impairment test to address users' concerns about late recognition of impairment losses and overstatement of goodwill;
  - (d) improving the disclosure requirements for goodwill and impairment;

- (e) a possible improvement to the definition and guidance for customer relationships acquired in a business combination.

A11. The Board provided feedback and encouraged the staff to develop their proposals further in these areas. No decisions were made.