STAFF PAPER

March 2016

IASB Meeting

Project	**Goodwill and impairment project**
Paper topic	Cover Paper

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Objective of this meeting

1. The objective of this meeting is for Board members to consider:
   (a) ways in which we could improve the information provided about goodwill and impairment to users of financial statements; and
   (b) whether there is a need to clarify the existing requirements for customer relationships acquired in a business combination.

Structure of this paper

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

List of March 2016 meeting papers

3. Agenda papers for this meeting:
   (a) Agenda Paper 18: Cover paper (this agenda paper)

(b) Agenda Paper 18A: Customer relationships acquired in a business combination

(c) Agenda Paper 18B: Improving the disclosure requirements for goodwill and impairment

(d) Agenda Paper 18C: Improving the impairment test.

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) and the European Financial Reporting Advisory Group (EFRAG) to gather this information. We expect to bring this analysis to the April Board meeting.

Proposed way forward and timetable

5. The staff envisage the project continuing in two concurrent phases:

(a) <u>Phase One (joint decisions on joint papers with the US Financial Accounting Standards Board (FASB)):</u> 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.

The issues are related and decisions on one may affect the other. A table summarising the approaches that are under consideration by the Board and the FASB is included in the appendix to enable comparison.

(b) <u>Phase Two (separate IASB papers and discussions, with co-operation with the FASB)</u>**:** 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

Expected date	**Activity**
April 2016	Presentation of quantitative information described in paragraph 4.
April/May 2016	Education session with the FASB by videoconference.
June 2016	Joint decision making meeting 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 areas of focus to the assessment phase of its research agenda (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.

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 *Business Combinations* 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, November 2015 and February 2016 Board meeting

A6. The Board started its discussions on the three topics. The meetings were not intended to be decision-making meetings and so no decisions were made.

October 2015 and January 2016 FASB meetings

A7. At its meeting in October 2015 the FASB discussed issues on the accounting for identifiable intangible assets in a business combination:

(a) The FASB discussed whether to change the initial recognition of customer-related intangible assets or noncompetition agreements acquired in a business combination for public business entities in the light of the totality of the staff's research and outreach conducted to date.

(b) 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.

A8. 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.

A9. 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.

Work performed by others

A10. During this project the Board can benefit from the research and work performed by others, including the FASB and a research group consisting of individuals from the EFRAG, the Organismo Italiano di Contabilità (OIC), and the ASBJ (referred to as the EFRAG/OIC/ASBJ Research Group for the purpose of these agenda papers).

(a) At the September 2015 meeting the FASB staff presented a paper that provided a 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).

(b) 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.

The staff have referred to the work and conclusions of the FASB and the EFRAG/OIC/ASBJ Research Group in the agenda papers for this meeting when analysing the approaches for the Board to consider.

Approaches being considered by the IASB and the FASB for discussion at the joint meeting

	IASB	FASB
Approaches being considered for subsequent accounting for goodwill	1) An amortisation and impairment model 2) Direct write off of goodwill 3) Impairment only model The Board is also considering ways to improve the impairment test.	1) The Private Company Council (PCC alternative). Allows an entity to amortise goodwill over 10 years, or less than 10 years if an entity demonstrates that another useful life is more appropriate. Under this alternative, entity would test goodwill for impairment only when a triggering event occurs. 2) Amortisation of goodwill with impairment tests over its useful life. 3) Direct write-off of goodwill. 4) Impairment-only model. The staff think FASB members appear more focussed on view 2 or 4. The FASB is proceeding with an Exposure Draft to simplify the US GAAP impairment model.
Identification and measurement of intangible assets in a business combination	1) No change to existing requirements, but clarifying requirements for customer relationships. 2) Subsume some identifiable intangible assets in goodwill for cost-benefit reasons. Examples of those to consider: a) Where we have received feedback that separate measurement is complex and costly (and that some users do not find useful). b) Indefinite life intangibles that are difficult to value on an individual basis. c) Those that would not be	1) Subsuming some intangible assets in goodwill. Four sub views: a) Intangible assets only separately recognised if they are capable of being sold or licensed independently from other assets of a business. b) PCC alternative. Noncompetition agreements (NCA) would not be separately recognised and customer-related intangibles (CRI) would only be separately recognised if they are capable of being sold or licensed independently from other assets of a business. No change for other intangible assets. c) CRIs would only be separately

	capitalised if they were internally generated. d) Those being considered by the FASB. 3) Remove statement that acquirer can always reliably measure the fair value of identifiable intangibles acquired in a business combination. 4) Allow further grouping of intangible assets.	recognised if they are capable of being sold or licensed independently from other assets of a business. No change for other intangible assets. d) Narrower definition of contractual CRIs. This alternative consists of narrowing the guidance on when a CRI meets the contractual/legal criterion for recognition to exclude ongoing customer relationships associated with purchase-order-based or at-will customers. No change for other intangible assets. 2) No change to US GAAP The staff think that the FASB is more focussed on View 1(b)-(c) or 2.