

STAFF PAPER

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Project	Goodwill and Impairment research project		
Paper topic	Recognising identifiable intangible assets acquired in a business combination		
CONTACT(S)	Woung Hee Lee	wlee@ifrs.org	+44 (0)20 7246 6947
	Raghava Tirumala	rtirumala@ifrs.org	+44 (0)20 7246 6953

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Purpose

1. The purpose of this paper is to:
 - (a) set out feedback received from stakeholders during and after the Post-implementation Review (PIR) of IFRS 3 *Business Combinations* in relation to the requirement in IFRS 3 to recognise all identifiable intangible assets acquired in a business combination;
 - (b) set out the possible approaches that the Board could consider in response to the feedback, especially whether to allow some identifiable intangible assets to be included within goodwill without losing relevant information currently provided; and
 - (c) ask the Board to decide the approach that it wishes to pursue.

Summary of recommendation

2. The staff recommend that the Board should pursue allowing some indefinite-lived intangible assets acquired in a business combination to be included within goodwill, if those assets are not already generating cash inflows from continuing use that are largely independent of those from other assets or groups of assets.

Structure of the paper

3. The paper is structured as follows:
 - (a) summary of current requirements in IFRS Standards (paragraphs 4–7)
 - (b) stakeholder feedback during and after the PIR of IFRS 3 (paragraphs 8–37)
 - (i) investors’ feedback (paragraphs 11–24)
 - (ii) feedback from preparers and auditors (paragraphs 25–28)
 - (iii) related work of others (paragraphs 29–35)
 - (iv) review of academic literature (paragraphs 36–37)
 - (c) staff analysis of stakeholders’ feedback (paragraphs 38–50)
 - (d) allowing some identifiable intangible assets to be included within goodwill (paragraphs 51–68)
 - (e) question for the Board
 - (f) [Appendix A](#)—March 2009 Agenda Decision of the IFRS Interpretations Committee

Summary of current requirements in IFRS Standards

4. Paragraph B31 of IFRS 3 requires an acquirer to recognise, separately from goodwill, all identifiable intangible assets acquired in a business combination.
5. An intangible asset is identifiable if it:
 - (a) is capable of being separated or divided from the acquiree and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability (the separability criterion); or
 - (b) arises from contractual or other legal rights (the contractual-legal criterion).
6. The previous version of IFRS 3, which was issued in 2004, included two additional conditions for recognition of an intangible asset—the fair value of the

asset can be measured reliably and it is probable that any associated future economic benefits would flow to the acquirer. When revising IFRS 3 in 2008, the Board deleted the two additional conditions because the Board concluded that those conditions will always be met in a business combination. Paragraph 33 of IAS 38 *Intangible Assets* states that:

In accordance with IFRS 3 *Business Combinations*, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. The fair value of an intangible asset will reflect market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 21(a) is always considered to be satisfied for intangible assets acquired in business combinations. If an asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset. Thus, the reliable measurement criterion in paragraph 21(b) is always considered to be satisfied for intangible assets acquired in business combinations.

7. Paragraphs IE16–IE44 of the Illustrative Examples accompanying IFRS 3 include examples of the following identifiable intangible assets:
- (a) marketing-related intangible assets, such as trademarks, trade names, internet domain names, non-competition agreements etc.
 - (b) customer-related intangible assets, such as customer lists, customer contracts, customer relationships etc.
 - (c) artistic-related intangible assets, such as books, pictures, musical works, audio-visual material etc.
 - (d) contract-based intangible assets, such as licensing agreements, servicing contracts, employment contracts, use rights etc.

- (e) technology-based intangible assets, such as patented technology, computer software, databases, etc.

Stakeholder feedback during and after the PIR of IFRS 3

8. In the Request for Information (RFI) for PIR of IFRS 3, the Board sought feedback from stakeholders on the following questions:
 - (a) Do you find the separate recognition of intangible assets useful? If so, why? How does it contribute to your understanding and analysis of the acquired business? Do you think changes are needed and, if so, what are they and why?
 - (b) What are the main implementation, auditing or enforcement challenges in the separate recognition of intangible assets from goodwill? What do you think are the main causes of those challenges?
9. At meetings in March 2018, the staff sought feedback from the Capital Markets Advisory Committee (CMAC) and the Global Preparers Forum (GPF) about whether separate recognition of identifiable intangible assets acquired in a business combination provides useful information.
10. Paragraphs 11–28 set out the feedback received from stakeholders during and after the PIR and from CMAC and GPF.

Investors' feedback

11. Investors have mixed views about usefulness of information provided by recognising all identifiable intangible assets acquired in a business combination.
12. A few investors supported the current requirement in IFRS 3 to recognise all identifiable intangible assets because, they said, the resulting information:
 - (a) helps them in understanding the components of the acquired business, and consequently, the sources of potential future cash flows.
 - (b) has predictive value—intangible assets with characteristics that distinguish them from goodwill are recognised separately.

- (c) encourages an entity’s management to better analyse the acquisitions, thereby serving not just financial reporting needs but also business needs.
 - (d) permits comparison of accounting estimates made by different entities—for example, if one entity amortises customer lists over 10 years but another entity amortises customer lists over 20 years.
13. However, some investors think that recognising all identifiable assets acquired and liabilities assumed in a business combination at fair value does not provide any useful information. Those investors view a business combination as a type of transaction different from purchase of assets. They think that recognising all assets acquired and liabilities assumed at fair value distorts their projections of expected cash flows. Their ability to revise the projections is restricted if they do not receive information about the carrying amounts of assets and liabilities immediately before the business combination. There was a requirement in IFRS 3 (2004) to disclose the carrying amount of each class of the acquired business’s assets, liabilities and contingent liabilities immediately before the business combination. The Board removed that requirement from IFRS 3 in 2008 for cost-benefit reasons.
14. Some CMAC members with experience covering the banking sector said that they ignore intangible assets acquired in a business combination because regulatory capital requirements require those intangible assets to be deducted from equity in determining regulatory capital.
15. Some CMAC members said that they were indifferent between recognising and not recognising identifiable intangible assets. An investor’s assessment of whether an acquisition increases value or diminishes value, and of whether the investor should invest in any capital-raising to fund the acquisition, is made when the acquisition is announced, at which time detailed information about values of intangible assets acquired is generally not available.
16. However, other investors questioned the usefulness of information provided by recognising some intangible assets because of concerns about:
- (a) credibility of fair value measurement of those intangible assets;

- (b) usefulness of information provided by amortisation of those intangible assets; and
- (c) differences between accounting requirements for internally-generated intangible assets and those for intangible assets acquired in a business combination.

Credibility of fair value measurement

17. Some investors said that they give little credence to the valuations placed on intangible assets such as customer relationships and brands. They think that valuation of those assets is highly subjective.
18. Some investors think that an intangible asset for which there is no active market should not be recognised. Many intangible assets are not frequently traded on a stand-alone basis and therefore very often there is no active market for them. Consequently, those investors rarely look at the values accounted for, unless a reliable measure of fair value can be obtained.

Usefulness of information provided by amortisation

19. Some investors think that amortising intangible assets such as customer relationships and brands leads to double counting, because costs incurred in maintaining these assets, such as sales and marketing, is also recognised as an expense.
20. Thus, many analysts add back these amortisation charges in arriving at their measures of underlying earnings. They would prefer that intangible assets that are difficult to define (or difficult to separate from the overall business) and indefinite-lived intangible assets, such as customer relationships and brands, should be subsumed into goodwill because they view those assets as akin to goodwill. They think that only intangible assets that arise from contracts, have a finite life and are separate from the overall business (such as licences) should be recognised separately. Separate recognition for such assets is useful, because they will need to be replaced. In their view, the recognition and amortisation of these assets provides relevant information, because it is a proxy for the replacement cost of the asset.

21. Some investors said that they do not find it easy to segregate the amortisation expense between (a) the expense relating to assets such as computer software that need to be replaced periodically, and (b) the expense relating to other assets. They think that the amortisation expense relating to assets such as computer software should not be added back in deriving measures of underlying earnings.

Different accounting requirements for internally-generated intangible assets

22. Some investors think it is not helpful that an identifiable intangible asset acquired in a business combination is recognised as an asset whereas the same asset, if internally generated, may not be recognised as an asset. They think this difference in accounting causes confusion, limits comparability and potentially distorts the efficient operation of capital markets.
23. Comparability of performance is lost because an entity of equal size that has grown organically would not have recognised any internally-generated intangible asset and any ongoing maintenance expense would be recognised in profit and loss. On the other hand, an entity that has grown through business combinations would have an amortisation charge for an intangible asset acquired in a business combination in addition to the maintenance expenses for that asset.
24. Those investors think that if an intangible asset would not have been recognised in financial statements if generated internally, amortising that intangible asset if acquired in a business combination does not reflect the economics of the business and reduces the entity's profit artificially.

Feedback from preparers and auditors

25. In relation to whether useful information is provided by the recognition of all identifiable intangible assets separately from goodwill, most GPF members supported the current requirement in IFRS 3 to recognise all identifiable intangible assets, for different reasons:
- (a) one member said that the current requirement helps a company better explain the assets that it has acquired.

- (b) another member said that the current requirement permits separate recognition of intangible assets that are not very different from goodwill, such as brands, and amortising those intangible assets. This takes some pressure off testing goodwill for any impairment.
- (c) one member said that separate recognition of indefinite-lived intangible assets does not provide useful information.

However, the discussion by members did not produce a clear view about why the requirement in IFRS 3 produced useful information.

- 26. In relation to whether valuing some intangible assets, such as customer relationships and brands, is costly and complex, some members said that valuing identifiable intangible assets acquired in a business combination is not costly because it is a one off activity and companies have access to valuation service providers and valuation models.
- 27. However, the feedback from the PIR was different. Many participants thought that some intangible assets, such as customer relationships and brands, are difficult to distinguish from the business as a whole and could require subjective and arbitrary allocation of future cash flows among these intangible assets and other assets.
- 28. The main challenges in recognising and measuring intangible assets described by participants are:
 - (a) many intangible assets are not frequently traded on a stand-alone basis and therefore very often there is no active market for them.
 - (b) many intangible assets are unique and therefore it is not easy to identify and assess their value.
 - (c) valuation methods are complex and subjective.
 - (d) values may be attributed to the wrong asset due to confusion on the source of profit generation.
 - (e) the measurement is more complex/subjective when the intangible assets are not based on legally enforceable rights.

- (f) the lack of any thresholds in terms of measurement reliability means that the Standard requires a search for identifiable intangible assets at a very granular level.
- (g) in some cases, the acquirer already owns the intangible assets (for example, customer relationships when there is an overlap between the customer bases of the acquirer and the acquiree).
- (h) in some cases, the acquirer does not intend to use the intangible assets (for example, a brand acquired and held for defensive reasons).
- (i) determining the useful life of some intangible assets is subjective.

Related work of others

Financial Reporting Council (FRC) of the UK

- 29. The Accounting and Reporting Policy team of the UK's FRC carried out research to understand investor views on whether the current requirements in IFRS Standards produce useful and reliable information. The results of the research were published in March 2014 in a report [*Investor Views on Intangible Assets and their Amortisation*](#).
- 30. In relation to intangible assets acquired in a business combination, some investors identified two broad categories of intangible assets—'wasting' intangible assets and 'organically-replaced' intangible assets. Wasting assets are separable from the entity, have finite useful lives and produce identifiable revenue streams. Examples include licences, patents, wireless spectrum, and software. Organically-replaced assets are likely to be difficult to separate from the entity, less likely to have reliably determinable useful lives, and more likely to produce economic benefits that may not be distinguished from those provided by the business as a whole. Such intangible assets, such as brands and customer relationships, are replenished on an ongoing basis through marketing and promotional expenses.
- 31. Those investors believe that only wasting intangible assets should be separately recognised from goodwill.

European Securities and Markets Authority (ESMA)

32. The ESMA published a report [Review on the application of accounting requirements for business combinations in IFRS financial statements](#) in June 2014. According to the report:
- (a) 77 per cent of the issuers included in the sample recognised intangible assets other than goodwill as part of the business combination.
 - (b) 54 per cent of the total amount of intangibles (including goodwill) related to separable intangible assets.
 - (c) intangible assets for which usually there is no observable market, such as customer-related and marketing-related intangibles, were the most common assets recognised in the sample. The customer-related intangibles included customer relationships, customer lists, customer contracts and order backlogs. Marketing-related intangibles mainly included brand names and internet domains.
 - (d) the most prevalent intangible asset recognised separately from goodwill related to customer relationships arising from both contractual and non-contractual relationships.
33. In its report, ESMA encouraged the Board to deal with a recommendation in an March 2009 Agenda Decision of the IFRS Interpretations Committee. See [Appendix A](#) for the Agenda Decision.
34. The Interpretations Committee discussed a question on the circumstances in which a non-contractual customer relationship arises in a business combination and concluded that the way a relationship was established helps to identify whether a customer relationship exists but should not be the primary basis for determining whether the acquirer recognises an intangible asset. Due to the widespread diversity observed by the Interpretations Committee, it decided to refer this question to the Board with a recommendation to review and amend IFRS 3 by:
- (a) removing the distinction between ‘contractual’ and ‘non-contractual’ customer-related intangible assets recognised in a business combination; and

- (b) reviewing the indicators that identify the existence of a customer relationship in paragraph IE28 of IFRS 3 and including them in the Standard.
35. ESMA agreed with the Interpretations Committee's conclusion that the nature of the customer relationship should not determine whether an intangible asset should be recognised. In its review, ESMA noticed that non-contractual cash flows were also considered in measuring an existing (contractual) customer relationship. Because customer relationships happen to be the most prevalent intangible asset recognised separately from goodwill, ESMA encouraged the Board to deal with the Interpretations Committee's recommendation.

Review of academic literature

36. Before issuing the feedback statement on PIR of IFRS 3, the Board reviewed academic literature/evidence in relation to the questions asked in the RFI. See [Agenda Paper 12G](#) for the September 2014 Board meeting.
37. The conclusion drawn at that meeting was that the review of 28 published studies and two working papers provided evidence generally in support of the current Standards, particularly in relation to the usefulness of reported goodwill, other intangible assets and impairment testing of goodwill for entities using IFRS 3 and IAS 36 *Impairment of Assets*. See paragraph 56 of that paper for a summary of evidence from, and findings of, studies reviewed by the staff.

Staff analysis of stakeholders' feedback

38. The feedback received during and after the PIR and the evidence collected so far raise some questions on the Board's conclusion in IFRS 3 that recognising all identifiable intangible assets separately from, rather than including within, goodwill provides better information to users of financial statements.

Analysis of feedback from investors

39. As evident from the investors' feedback set out in paragraphs 11–24, many investors would support recognising some, but not all, identifiable intangible

assets acquired in a business combination. Having said that, most concerns of investors are not of the nature of fundamental disagreement with the principles underlying the requirement in IFRS 3. Though some investors view a business combination as a type of transaction different from purchase of assets, the reasons for that view are not clear.

40. In relation to investors' concerns about credibility of fair value measurement of intangible assets acquired in a business combination (see paragraphs 17–18), the staff asked the CMAC whether the reason for investors' concerns is insufficient disclosure about the valuation methodology and inputs used in valuing the intangible assets. The discussion by members did not produce a clear view. Currently, IFRS 13 *Fair Value Measurement* does not require disclosures for fair values at initial recognition of intangible assets acquired in a business combination. The Board might want to consider requiring disclosures similar to the requirements in IFRS 13 for intangible assets acquired in a business combination. However, if feedback from CMAC is considered representative of the view of investors generally, it is not clear if adding those disclosures would result in investors paying more attention to the fair value of those assets.
41. One concern raised by some investors (see paragraph 23) was lack of comparability between entities that have grown organically—typically without recognising most internally-generated intangible assets—and entities that have grown through acquisition. The staff agree that:
- (a) if an entity has grown organically, it will typically not have recognised most internally-generated intangible assets. Expenditure incurred in developing those assets will have been recognised as an expense in past periods, and there will be no amortisation expense for those assets.
 - (b) if an entity has grown by acquisition, it will recognise internally generated intangible assets. If those assets have finite lives, it will subsequently amortise them as it consumes them. The staff acknowledge that this means the entity will recognise amortisation expense in the periods when it consumes the asset, rather than in the earlier periods when the acquiree originally generated the assets internally. However, if the acquired assets were not to be recognised

and amortised, an entity that grew organically and incurred the lower cost of generating an asset would report an expense. Thus, the entity that incurs lower costs (by growing organically) would report an expense, and the entity that incurred higher costs (by acquisition) would recognise no expense at all.

- (c) both entities will recognise in the current period any ongoing maintenance expense relating to those assets. In the case of the entity that grows by acquisition, the entity recognises two sets of expense in the current period—amortisation and maintenance. In the staff’s view, this is not double counting. One expense is for amortisation. The other expense is for maintenance and enhancement.

42. Having considered the feedback received from investors so far, the staff think that investors’ concerns are mainly about non-availability of the following information in financial statements for periods after a business combination:

- (a) disaggregation of amortisation recognised in profit or loss by each class of intangible assets (see paragraphs 43–45); and
- (b) carrying amount at the end of a reporting period of assets acquired in past business combinations (see paragraphs 46–47).

43. As evident from paragraphs 19–21, investors use the information provided by recognising amortisation of some intangible assets, such as computer software. However, they expressed concerns about non-availability of disaggregation of amortisation recognised for each class of intangible assets.

44. Furthermore, one of the possible reasons for investors’ concerns about loss of comparability arising from differences between accounting requirements for internally generated intangible assets and those for intangible assets acquired in a business combination is the non-availability of disaggregation of amortisation recognised for each class of intangible assets. If that information was available, investors would be able to use that information in deriving their measures of underlying earnings.

45. Paragraph 118 of IAS 38 requires an entity to disclose a reconciliation of the carrying amount at the beginning and end of the period for each class of intangible

assets, and one of the items of reconciliation is the amortisation recognised during the period. Although the information about amortisation for each class of intangible assets is available in the financial statements of an entity, the staff understand that this information is probably not being captured by data aggregators in their databases. One of the possible reasons for data aggregators not capturing that information is because of absence of that information in financial statements of entities that are not using IFRS Standards. Consequently, it is not clear if the Board could take any action that would change the information reported by data aggregators.

46. In relation to carrying amount at the end of a reporting period of assets acquired in past business combinations, investors might be needing this information in case they choose not to model potential business combinations in projecting expected future cash flows of the entity. However, it is not clear if this information is required only for intangible assets acquired in a business combination or also for other assets acquired in a business combination.
47. The Board might want to consider requiring disclosure of carrying amounts of assets acquired in past business combinations. However, preparers are likely to raise concerns about that disclosure because that information may not always be available, especially for some assets.

Analysis of feedback from other stakeholders

48. Preparers and auditors raised concerns about identifying and measuring some intangible assets such as customer relationships and brands, and consequently question the use of that information.
49. Their concerns seem to be mainly about costs involved in the process of identifying and measuring those assets. However, if feedback from GPF set out in paragraph 26 is considered representative of the current view of preparers generally, it appears that practice has moved on and the concerns raised during the PIR may no longer exist. Consequently, it appears that there is no need for the Board to take any action.
50. Having said that, some prepares may still have concerns about the process of identifying and valuing intangible assets acquired in a business combination.

Allowing some identifiable intangible assets to be included within goodwill

51. On the basis of the analysis in paragraphs 38–50, the Board could consider whether some identifiable intangible assets acquired in a business combination could be included within goodwill. The following possible approaches have been identified on the basis of feedback and suggestions from stakeholders:
- (a) allowing specified intangible assets such as customer relationships, brands and non-competition agreements to be included within goodwill;
 - (b) requiring recognition of only those intangible assets that have been recognised in the acquired entity’s financial statements;
 - (c) allowing or requiring to be included in goodwill those identifiable intangible assets that would not have been recognised in financial statements if generated internally;
 - (d) allowing all identifiable intangible assets that do not meet the contractual-legal criterion to be included within goodwill;
 - (e) categorising intangible assets into wasting assets and organically-replaced intangible assets and in a business combination requiring recognition of only wasting assets; or
 - (f) allowing some indefinite-lived intangible assets to be included within goodwill.
52. The approaches listed in paragraphs 51(a)–51(e) would lead to the following problems:
- (a) most of those approaches would create ‘rules’ undermining the principles-based framework of IFRS Standards.
 - (b) some of those approaches involve a fundamental reconsideration of the requirements in IFRS Standards on accounting for intangible assets, and hence would require a major project.
 - (c) some of those approaches would create an artificial distinction between accounting for purchase of assets and accounting for a business combination.

- (d) all approaches undermine the predictive value of financial information because they would commingle in goodwill intangible assets with different characteristics.
- (e) some approaches would take away relevant information from users of financial statements because assets such as internally-developed software, research and development would not be recognised separately from goodwill.
- (f) all approaches would cause intangible assets with a finite life to be included within goodwill increasing the pressure on impairment testing of goodwill and a need for considering amortisation of goodwill. However, investors have consistently maintained that amortisation of goodwill does not provide any useful information.
- (g) most of those approaches give rise to some significant subsequent accounting issues, such as how to account for subsequent disposal or impairment of an asset that is included in goodwill.

53. Consequently, the staff do not recommend the approaches listed in paragraphs 51(a)–51(e). In the staff’s view, the Board could realistically consider allowing some indefinite-lived intangible assets to be included within goodwill. See paragraphs 54–68.

Allowing some indefinite-lived intangible assets to be included within goodwill

Description

54. The Board could consider allowing identifiable indefinite-lived intangible assets to be included within goodwill, if those assets are not already generating cash inflows from continuing use that are largely independent of those from other assets or groups of assets. The Board could also require qualitative disclosures for any identifiable indefinite-lived intangible assets included within goodwill.

Staff analysis

55. Allowing identifiable indefinite-lived intangible assets to be included within acquired goodwill seems to be the simplest and easiest approach to reduce the cost

of applying IFRS 3. Doing so would also respond to some extent to stakeholders' feedback from the PIR.

56. Illustrative Examples accompanying IAS 38 include examples of situations in which the following intangible assets are assessed as having an indefinite useful life:
- (a) acquired broadcasting licence (Example 4);
 - (b) acquired airline route (Example 6); and
 - (c) acquired trademark (Examples 7 and 8).
57. The staff performed a quick review of financial statements of a few companies to understand what intangible assets are currently being assessed by companies as having indefinite useful life. The limited search revealed that trade names and trademarks are commonly assessed as having indefinite useful life. Paragraph IE21 of Illustrative Examples accompanying IFRS 3 states that the terms brand and brand name, often used as synonyms for trademarks and other marks, are general marketing terms that typically refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise.
58. In informal conversations with valuation experts, the staff understand that a brand is usually valued using the excess-earnings method. The excess-earnings method calculates the value of an asset based on the expected revenue and profits related to that asset, less the portion of those profits attributable to other assets that contribute to the generation of cash flow. The going concern element of an acquired business, which is a component of goodwill, represents the ability of the established business to earn a higher rate of return on an assembled collection of net assets than would be expected if those net assets had to be acquired separately. Consequently, it seems that a brand is similar in nature to goodwill.
59. Having said that, it is important to understand the consequences of allowing indefinite-lived intangible assets to be included within goodwill.
60. Paragraph 88 of IAS 38 requires an entity to assess whether the useful life of an intangible asset is finite or indefinite. An intangible asset with a finite useful life

is amortised whereas an intangible asset with an indefinite useful life is not amortised but is only tested for impairment.

61. Furthermore, paragraph 109 of IAS 38 also requires an entity to review the useful life of an indefinite-lived intangible asset each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. On the basis of the assessment, if the entity concludes that the useful life of the asset is no longer indefinite, the change from indefinite life to finite life is accounted for as a change in accounting estimate.
62. Paragraph 10 of IAS 36 requires an entity to test for impairment annually an indefinite-lived intangible asset and goodwill acquired in a business combination. A change in the useful life of an intangible asset from indefinite life to finite life is an indicator of impairment, triggering an impairment test of that asset.
63. Although it appears that an entity would subsequently account for an indefinite-lived intangible asset and goodwill in the same manner, there are a few differences:
 - (a) as explained in paragraph 61, in relation to an indefinite-lived intangible asset, if events and circumstances do not support an indefinite life assessment, that asset is first tested for impairment and subsequently amortised over the expected finite useful life; no such assessment is performed for goodwill.
 - (b) goodwill is tested for impairment always at the level of a cash-generating unit (or groups of units) to which the goodwill relates; in contrast, an indefinite-lived intangible asset is tested for impairment as part of a unit only if the asset does not generate cash inflows from continuing use that are largely independent of those from other assets or groups of assets.
 - (c) in allocating any impairment loss for a unit (or groups of units) that includes goodwill and(or) an indefinite-lived intangible asset, the carrying amount of goodwill may be reduced to zero, whereas the carrying amount of the indefinite-lived intangible asset cannot be reduced below the highest of its fair value less costs or disposal, its value in use and zero.

- (d) an impairment loss recognised for goodwill cannot be subsequently reversed; impairment loss recognised for an indefinite-lived intangible asset is subsequently reversed if the impairment loss no longer exists or has decreased.
64. More work and research is required to understand the effect of the above differences—mainly the differences about reassessing useful life of an indefinite-lived intangible asset and prohibition on reversal of impairment loss recognised for goodwill—and whether there are ways of resolving the differences in the accounting requirements. Additionally, there will also be questions about allocation of the resulting goodwill (ie the amount including identifiable-intangible assets) to units (or groups of units) and accounting for disposal of indefinite-lived intangible assets included within goodwill.
65. The following are the other consequences of allowing indefinite-lived intangible assets
- (a) the resulting information might not enable investors to compare different entities that make different accounting estimates for similar intangible assets. The staff identified that examples of indefinite-lived intangible assets include brands and some broadcasting or other licences. However, in some cases, those intangible assets might be regarded as having a finite useful life. For example, one entity might amortise its trademarks because it assessed the useful life of its trademarks as finite. If another entity includes indefinite-lived trademark within goodwill, users would not receive information about whether the entity has trademarks and the reasons supporting the assessment that those trademarks have an indefinite useful life. This might create comparability issues and inconsistencies. Even within one entity, some trademarks can be classified as finite intangibles and others as indefinite intangibles. However, current requirements of IFRS Standards provide such information for users.
- (b) the resulting information might not be useful because some indefinite-lived intangible assets that would be included within goodwill might have characteristics different from those of goodwill.

Indeed, some of them might be capable of generating independent cash flows by way of licensing.

- (c) some indefinite-lived intangible assets are very significant in an acquired business. Sometimes, those assets could be key components of the acquired business and could be the main reason why an entity acquired the business. Therefore, including those assets within goodwill might take useful information away from users of financial statements.

- 66. Consequently, the staff think this approach can reduce the cost of valuing some intangible assets acquired in a business combination at the acquisition date but other costs may arise for reasons set out in paragraphs 64–65, perhaps not significantly reducing the overall cost of applying IFRS 3. Furthermore, the staff think this approach can deprive users of information that is currently provided.
- 67. However, the Board could require qualitative information, such as, a description of indefinite-lived intangible assets included within goodwill. The Board could require an entity to continue to disclose the reasons supporting the assessment of an indefinite useful life (see paragraph 122(a) of IAS 38).
- 68. The staff think requiring disclosure of qualitative information on those intangible assets would not impose significant additional costs on preparers because IAS 38 requires an entity to disclose similar information if those assets are recognised separately.

Staff recommendation

- 69. The staff recommends that the Board should pursue allowing indefinite-lived intangible assets acquired in a business combination to be included within goodwill, if those assets are not already generating cash inflows from continuing use that are largely independent of those from other assets or groups of assets.
- 70. On the basis of the analysis in paragraphs 55–68, if the Board decides to pursue allowing some indefinite-lived intangible assets acquired in a business combination to be included within goodwill, loss of information for investors would be offset to some extent by the qualitative disclosures that an entity would

have to provide. However, the extent of cost savings for preparers is not clear, and consequently more work is required to assess the possible benefits of making that change—cost savings for preparers—and possible costs of that change—loss of information of users.

Question for the Board

Does the Board agree with the staff's recommendation in paragraph 69?

Appendix A March 2009 Agenda Decision of the Interpretations Committee

IFRS 3 *Business Combinations*—Customer-related intangible assets

The IFRIC received a request to add an item to its agenda to provide guidance on the circumstances in which a non-contractual customer relationship arises in a business combination. IFRS 3 (as revised in 2008) requires an acquirer to recognise the identifiable intangible assets of the acquiree separately from goodwill. An intangible asset is identifiable if it meets either the contractual-legal criterion or the separable criterion in IAS 38 *Intangible Assets*. Contractual customer relationships are always recognised separately from goodwill because they meet the contractual-legal criterion. However, non-contractual customer relationships are recognised separately from goodwill only if they meet the separable criterion.

The IFRIC noted that the IFRS Glossary defines the term ‘contract’. Paragraphs B31–B40 of IFRS 3 provide application guidance on the recognition of intangible assets and the different criteria related to whether they are established on the basis of a contract. The IFRIC also noted that paragraph IE28 in the illustrative examples accompanying IFRS 3 provides indicators for identifying the existence of a customer relationship between an entity and its customer and states that a customer relationship ‘may also arise through means other than contracts, such as through regular contact by sales or service representatives.’

The IFRIC concluded that how the relationship is established helps to identify whether a customer relationship exists but should not be the primary basis for determining whether the acquirer recognises an intangible asset. The IFRIC noted that the criteria in paragraph IE28 might be more relevant. The existence of contractual relationships and information about a customer’s prior purchases would be important inputs in valuing a customer relationship intangible asset but should not determine whether it is recognised.

In the light of the explicit guidance in IFRS 3, the IFRIC decided that developing an Interpretation reflecting its conclusion is not possible. Noting widespread confusion in practice on this issue, the IFRIC decided that it could be best resolved by referring it to the IASB and the FASB with a recommendation to review and amend IFRS 3 by:

- removing the distinction between ‘contractual’ and ‘non-contractual’ customer-related intangible assets recognised in a business combination; and
- reviewing the indicators that identify the existence of a customer relationship in paragraph IE28 of IFRS 3 and including them in the standard.