

Goodwill and Impairment

Accounting Standards Advisory Forum meeting
December 2018
ASAF agenda paper 6

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Introduction

Objective of the meeting

To seek advice on:

- ✓ issues discussed by CMAC and GPF members in recent meetings
 - identifying better disclosures for business combinations
 - how investors use the carrying amount of goodwill in investor analysis;
- ✓ whether to reintroduce amortisation of goodwill; and
- ✓ further disclosure ideas which might help investors remove the effects of goodwill and specified amortisation charges from a company's results.


Questions to ASAF members:

- ✓ Issues discussed by CMAC and GPF: See slide [9](#)
- ✓ Amortisation of goodwill: See slide [14](#)
- ✓ Further disclosure ideas: See slide [18](#)

Objectives for the research project

- ✓ The Board decided to pursue the **following three objectives** for **addressing the interrelated problems** identified in the research project (at July 2018 meeting):

Objective A	<p>Identifying disclosures to enable investors to assess:</p> <ul style="list-style-type: none">• management’s rationale for the business combination• whether the post-acquisition performance of the business combination meets expectations set at the acquisition date
Objective B	<p>Exploring simplifications of goodwill accounting:</p> <ul style="list-style-type: none">• explore an indicator-only approach as to whether an impairment test is required• explore reintroducing amortisation of goodwill
Objective C	<p>Changing the calculation of value in use:</p> <ul style="list-style-type: none">• using cash flow projections that include future enhancements to the asset• permitting use of post-tax inputs in the calculation of value in use



Advice on topics discussed with CMAC and GPF

Capital Markets Advisory Committee (CMAC) meeting in November 2018:

- ✓ The staff obtained feedback from users about:
 - Identifying better disclosures for business combinations
 - How investors use the carrying amount of goodwill in investor analysis
- ✓ See agenda paper for the CMAC meeting [here](#)
- ✓ View webcast and minutes of the CMAC meeting [here](#)

Global Preparers Forum (GPF) meeting in November 2018:

- ✓ The staff obtained feedback from preparers about identifying better disclosures for business combinations
- ✓ See agenda paper for the GPF meeting (the materials on disclosures for the GPF meeting were the same as for CMAC) [here](#)
- ✓ View webcast and minutes of the GPF meeting [here](#)

Summary of the feedback from CMAC

Targeted improvements to existing disclosures in the year of acquisition

- Generally supported the targeted improvements being considered to the existing disclosures of IFRS 3.
- Supported disclosure of debt and pension obligations acquired.
- Quantitative information on synergies is particularly important including timing and cost.
- Pro-forma pre-acquisition information should be provided to permit comparability.

Why is information on the subsequent performance of the business combination needed?

- Whilst most members noted that the information is needed for stewardship purposes, some members noted it is also needed for valuation purposes.
- Some members thought the information was needed only for major acquisitions.
- Segmental reporting information is not enough to assess the success of a business combination.

Additional disclosures on the subsequent performance of the business combination

- Generally supported for additional disclosures on the subsequent performance of business combinations.
- Appeared to be support for staff's preferred approach, using management-defined measures.
- Where integration occurs, combined data can still be useful.
- Information needs to be quantitative, but mixed views on the period it should be provided for.

Use of the carrying amount of goodwill in investor analysis

- Some users noted that they ignore goodwill in their analysis whereas others indicated that the carrying amount of goodwill can be helpful (eg ability to generate growth vs buying growth, indicator of success).
- Retail investors are likely not to adjust the goodwill carrying amount in their analysis.

Summary of the feedback from GPF

Targeted improvements to existing disclosures in the year of acquisition

- Generally expressed concerns about the feasibility of providing quantitative information relating to goodwill for the following reasons:
 - Acquisition price is influenced by a number of factors not solely by quantitative techniques.
 - It is difficult to quantify the expected synergies especially for strategic acquisitions.
 - Some information in relation to acquisitions is commercially sensitive.
- Some suggested that extra disclosures would be needed only for strategic acquisitions.

Additional disclosures on the subsequent performance of the business combination

- Generally expressed concerns about the feasibility of providing information about subsequent performance of the business combination for the following reasons:
 - Success of acquisitions is not generally monitored using quantitative factors or accounting numbers.
 - Where integration occurs, it is difficult to track the subsequent performance of the business combination.
 - Monitoring focuses on updated target for the combined business rather than on original expectations for the acquired business in the year of acquisition.
 - As business strategy may change over time, continuing to hold management accountable for its acquisition-date strategy may not be meaningful.
- It would be possible to provide qualitative information and integration strategy.
- There should not be undue focus on goodwill in considering performance of the business combination.

Questions to ASAF members


- Do you have any advice on issues discussed by CMAC and GPF?

Amortisation of goodwill

Objective of accounting for goodwill

Key findings on impairment testing for goodwill from research work:

- ✓ Shielding limits the effectiveness of the impairment testing model and the impairment test does not directly target acquired goodwill.
- ✓ Consequently:
 - impairment loss of goodwill might be recognised too late; or
 - the carrying amount of goodwill might remain on the statement of financial position indefinitely



Should the objective of subsequent accounting for acquired goodwill be to:
“reduce the carrying amount of acquired goodwill to zero as the benefits from
the business combination are consumed”

Possible arguments for amortisation

- ✓ Over time, original acquired goodwill may be replaced by internally generated goodwill.
- ✓ Allocating the cost of acquired goodwill over the time periods in which it is consumed
- ✓ Concern that the carrying amount of acquired goodwill, either representing internally generated goodwill or the impairment test has not been effective.
- ✓ However, what is the unit of account for the goodwill contained within a cash-generating unit or group of cash-generating units?
 - Do you have to believe that “acquired goodwill” is a separate unit of account?

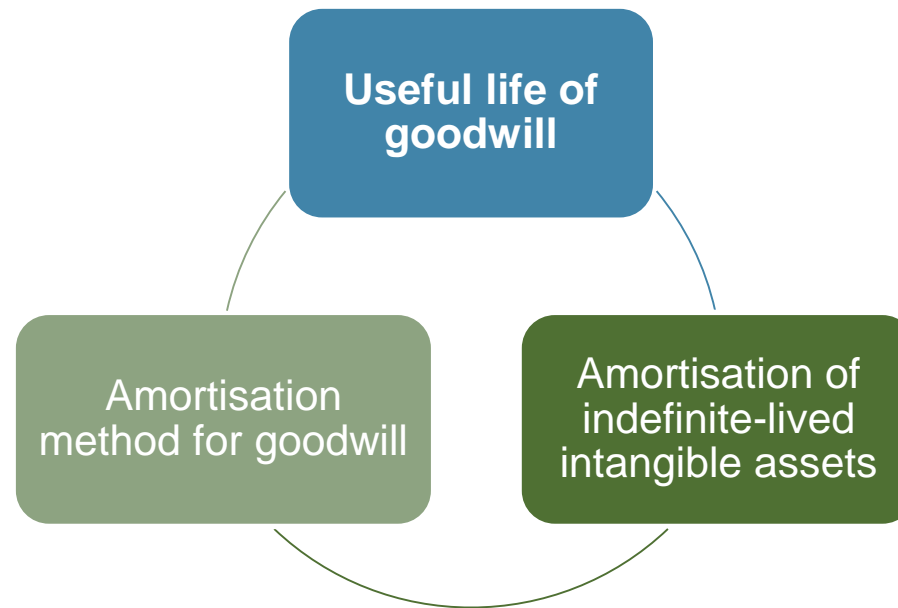
If the **objective** is to reduce the carrying amount of acquired goodwill to zero:

Amortisation of goodwill can be a pragmatic solution because it is the most **simple and cost-effective way** to achieve the objective.

Potential questions to be answered

If amortisation of goodwill were to be reintroduced, the following questions would need to be answered:

- ✓ The staff think how to determine the useful life and pattern of consumption for goodwill in a manner that reflects the economics of a business combination is a challenging and a significant issue



Questions to ASAF members

- Do you agree that the objective of subsequent accounting for acquired goodwill should be to reduce the carrying amount of acquired goodwill to zero as the benefits from the business combination are consumed? Why or why not?
- Do you think the carrying amount of goodwill becomes less decision-useful if it reflects some internally generated goodwill rather than only the original acquired goodwill?
- Do you think amortisation of goodwill is the best way to achieve an objective of reducing the carrying amount of goodwill to zero?
- Do you think it is practical to determine the useful life and consumption pattern of goodwill to reflect the economics of the business combination?
- What do you think the useful life of acquired goodwill is? (e.g. pay-back period, the period over which the tangible assets are consumed, etc)



Further disclosure ideas

Further disclosure ideas

To help investors remove the effects of goodwill and specified amortisation charges from a company's results, the staff are considering the following disclosure ideas:

- ✓ Disclose the amount of equity an entity would report if it did not recognise
 - goodwill; and
 - those acquired intangible assets that would not have been recognised if they had been internally generated
- ✓ Disclose the profit or loss an entity would report without amortisation and without any impairment losses on those intangible assets and on goodwill

Pros and cons of disclosure ideas



- Provides information for users to better compare between entities growing organically and those growing thorough acquisitions.
- For those concerned over the carrying amount of goodwill on the statement of financial position, provides disclosure of the amount of a company's equity resulting from recognising goodwill.
- Does not add significant costs for preparers.



- Not necessary because the information is readily available for investors.
- Difficult to know where to draw the line on the adjustments to be made.
- Could be seen to question acquisition accounting.

Questions to ASAF members

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- Do you have any comments or feedback on further disclosure ideas set out on slide [16](#)?

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