

STAFF PAPER

October 2018

IASB® Meeting

Project	Goodwill and impairment research project		
Paper topic	Discussion paper outline		
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Purpose

1. The purpose of this paper is to provide a draft outline of the discussion paper, which has been attached as an appendix to this paper. There are no questions for the Board, but the staff would welcome any comments Board Members may have.

Background

2. In the July 2018 Board meeting, the Board tentatively decided the next step in the research project would be to issue a discussion paper. The Board noted that this decision would not preclude it from issuing an exposure draft on, for example, targeted improvements to the value in use calculation.
3. An outline of the proposed chapter headings of the discussion paper and a summary of the content of those chapters is attached as an appendix to the paper. At this stage it has been assumed that all elements of the project are included in a discussion paper.

Appendix: Discussion paper outline

Summary and invitation to comment

History of the project

- IN1 Brief description of the Post-implementation Review (PIR) of IFRS 3 *Business Combinations* and how the feedback led to the Goodwill and Impairment research project being established and the research questions the project was asked to focus on. This would include a discussion on the addition of research on the disclosure of goodwill and impairment as part of the original research objective of improving the impairment test.

Why is the Board publishing this Discussion Paper?

- IN2 Explain what the Board wishes to explain in the Discussion Paper:
- (a) Problems the Board has identified and the objectives the Board is pursuing in seeking solutions.
 - (b) Possible solutions to those problems, their advantages and disadvantages (including benefits and costs) and interrelationships between the possible solutions.
 - (c) The Board's preliminary views of the most appropriate solutions if the Board reaches preliminary views.

Who will be affected if the preliminary views in this Discussion Paper were to be implemented?

- IN3 Summarise the implications of the preliminary views on users (addressing the request for better information regarding the performance of an acquisition; considering the impact of the simplification of the accounting for goodwill and of the impairment test in the context of the information users currently obtain from goodwill and the impairment test), preparers (benefits of the simplification of accounting for goodwill and of the impairment test addressing feedback from preparers of the cost and complexity of the impairment test; acknowledging the increased disclosure requirements and the impact the preliminary views could have on costs) and auditors and regulators (discuss the feedback from auditors and regulators and how the preliminary views may address their concerns).

What does this Discussion Paper cover?

IN4 Table of chapter headings and a summary of the chapter content.

Invitation to comment

IN5 Standard section.

How to comment

IN6 Standard section.

Section 1–Background and objectives of the project

Background

1. Brief discussion of the reasons for revising IFRS 3 and IAS 36 *Impairment of Assets* in 2008, mentioning the rationale for selecting an impairment-only approach. Fuller description of the PIR, the feedback received and how the feedback led to the Goodwill and Impairment research project being established and the research questions the project focused on. This would include a discussion on the addition of research on the disclosure of goodwill and impairment as part of the original research objective of improving the impairment test, giving rise to the following four areas of focus:
 - (a) improving the impairment test;
 - (b) subsequent accounting for goodwill (including the relative merits of an impairment-only approach and an amortisation and impairment approach);
 - (c) identification and measurement of intangible assets such as customer relationships and brand names; and
 - (d) improving the disclosure requirements for goodwill and impairment.
2. Summarise the research performed during the project.
3. Summary of the progress on the FASB research project on goodwill because IFRS 3 is a converged standard although IAS 36 is not (**Appendix B**).
4. Brief description of the principal ideas explored by the staff under each research area prior to July 2018. This section is a summary of the main ideas explored but not necessarily favoured and this will be expanded in the later chapters.
 - (a) Improving the impairment test
 - Simplification
 - (i) revisiting the methodology in the calculation of recoverable amount, mandating only one method (value in use (VIU) or fair value less costs of disposal) or requiring an entity to select the method that reflects the way the entity expects to recover the asset;

- (ii) relief from the annual impairment test, with additional indicators added to IAS 36, or requiring the annual test only for the first year or first three to five years after an acquisition or requiring the impairment test to be performed every three years;
- (iii) simplifying the VIU calculation—reconsidering the use of pre-tax discount rates and the exclusion of restructuring and enhancement cash flows;
- (iv) allowing goodwill to be tested at the entity-level or at the level of a reportable segment;

Effectiveness

- (v) adding pre-acquisition headroom as an additional input into the impairment test to improve the test’s effectiveness; and
 - (vi) adding updated headroom as an additional input into the impairment test to improve the test’s effectiveness.
- (b) Subsequent accounting for goodwill (including the relative merits of an impairment-only approach and an amortisation and impairment approach)
 - (i) amortisation of goodwill;
 - (ii) accounting for the separate components of goodwill; and
 - (iii) direct write-off of goodwill to profit or loss, other comprehensive income or equity.
 - (c) Identification and measurement of intangible assets such as customer relationships and brand names
 - (i) subsume some intangible assets in goodwill for cost-benefit reasons; and
 - (ii) aligning the accounting for internally generated intangible assets and intangible assets acquired in a business combination.
 - (d) Improving the disclosure requirements for goodwill and impairment
 - (i) why a premium was paid, quantitative as well as qualitative assessment, the key performance assumptions or targets supporting the acquisition and performance against those targets for, say, three years;

- (ii) breakdown of goodwill by acquisition and explaining why the carrying amount of goodwill is recoverable;
- (iii) payback period of an acquisition;
- (iv) disclosure of the headroom of a cash-generating unit (CGU) that includes goodwill or indefinite-lived intangible assets;
- (v) improvements to existing IAS 36 disclosures; and
- (vi) improvements to existing IFRS 3 disclosures.

Objectives

5. Discuss the key findings from the feedback and research, the limitations and costs of the impairment test and the limited information provided by the impairment test, and the information required on the acquired business by users.
6. Discuss the three objectives set by the Board in July 2018 for the project, how the Board reached its decision to pursue these objectives and what problems the objectives were addressing. Discuss using disclosure to provide users with information on the performance of the acquisition and whether this would allow consideration of simplifying the impairment test and the accounting for goodwill.
7. Discuss concerns of some stakeholders regarding the carrying amount of goodwill. Discuss the overall objective of the subsequent accounting for goodwill. For example, is the objective one or more of the following: (i) to reduce the carrying amount of goodwill to zero eventually; (ii) to minimise the risk that the carrying amount of goodwill is not justifiable; (iii) to report the capital invested in an acquisition; and (iv) to provide users with timely information about impairments of goodwill?
 - (a) Improve disclosures to help users assess the success of the acquisition (**Section 2**).
 - (b) Simplify the impairment test (**Section 3**).
 - (c) Simplify the accounting for goodwill (**Section 4**).
8. Mention the objectives that the Board decided not to pursue:
 - (a) Improve the effectiveness of the impairment test (**Appendix A**).

- (b) Changing the identification and measurement of intangible assets such as customer relationships and brand names (**Appendix A**).

Section 2—Improving disclosures

Introduction

9. Discuss the feedback, particularly from users, on the information required to help users understand the strategic rationale and key objectives of a business combination and the extent to which the key objectives of past business combinations have been achieved. Discuss the reasons why users need this information. Discuss the limitations of the impairment test and how this provides limited information on the performance of the acquired business since acquisition (**Appendix A**). Discuss the linkage between this objective and the other objectives presented in the paper. Clarify the problem to be solved.

Performance of the acquisition

10. Discuss the Board's preliminary views on disclosure objectives and the disclosure requirements to meet those objectives and how these provide a solution to the problem defined in the introduction. Discuss the challenge of solving the problem due to the variability of business combinations. Discuss the preliminary feedback from preparers and users on the possible solutions, provide examples of possible disclosures either in this section or in an appendix. Discuss the concerns heard (to expand once possible solutions developed and feedback received). Discuss how the amendments fit into the existing IFRS 3 disclosure objectives and requirements, and which of the existing requirements meet the new disclosure objectives. Present the Board's preliminary views.

Other disclosure improvements

11. Discuss the Board's preliminary views on other changes to disclosure requirements in IAS 36 and IFRS 3. For example, details of a full review of IFRS 3 disclosures, if

performed, and details of specific disclosure improvements in relation to goodwill or impairment testing. Explanation of the rationale for favouring these changes, for example what feedback has been received that the possible improvement would address or what research finding has generated the possible improvement.

Items considered but not recommended by the Board

12. Discuss all other disclosure improvements that were considered by the Board but not recommended, what issue(s) these might have addressed and why they were not recommended.

Section 3–Simplify the impairment test

Introduction

13. Discuss the reasons for considering whether it is possible and desirable to simplify the impairment test. Discuss the feedback that the test is costly and complex and why this is the case. Discuss the limitations of the impairment test and the limited information that it provides and the inherent difficulty of finding a cost-effective solution to this (**Appendix A**). Discuss the linkage between this objective and the other objectives presented in the paper. Clarify the problem to be solved.

Simplifying the calculation of value in use

14. Discuss whether to remove the restriction excluding cash flows that are expected to result from a future restructuring or a future enhancement, why this change would be a simplification, the feedback received on this topic, its applicability to other non-financial assets as well as goodwill and discuss concerns with this change, such as management optimism, and how these concerns have been addressed in the Board's preliminary view.
15. Discuss whether to remove the requirement to use pre-tax inputs in the calculation, why this change would be a simplification, the feedback received on this topic, its applicability to other non-financial assets as well as goodwill, discuss possible

concerns with this change and discuss consistency with the removal of references to pre-tax rates from IAS 41 *Agriculture*. Present the Board’s preliminary view.

Other simplifications

16. Discuss any further simplifications favoured following additional work prior to the drafting of the Discussion Paper or reconsideration of other suggestions following the setting of objectives in July 2018, discuss applicability to other non-financial assets as well as goodwill and discuss possible concerns with the simplifications.

Items considered but not recommended by the Board

17. Discuss all other simplifications of the impairment test considered by the Board but not recommended and the reasons why not recommended.

Section 4– Simplifying the accounting for goodwill

Introduction

18. Discuss feedback from users on the use of the carrying amount of goodwill. Discuss potential concerns over the carrying amount of goodwill due to the limitations of the impairment test (**Appendix A**). Discuss the original rationale in IFRS 3 of moving to an impairment-only model regarding the better information provided by the impairment test. Discuss the linkage between this objective and the other objectives presented in the paper. Clarify the problem to be solved.

Reintroduction of amortisation of goodwill

19. Re-discuss the arguments for and against amortisation as heard in the PIR, feedback during the development of IFRS 3, other outreach during the research project and other research performed by other organisations. Discuss methods of determining useful life, impact on accounting for indefinite-lived intangible assets, possible transition requirements and rationale for these approaches. Discuss the benefit of

reducing the carrying amount of acquired goodwill. Present the Board's preliminary view. Discuss whether and how this would meet the objective of the subsequent accounting for goodwill. Discuss whether and how this is consistent with the *Conceptual Framework for Financial Reporting*.

Relief from the mandatory annual quantitative impairment testing of goodwill

20. Discuss how this simplification in the impairment testing requirements for goodwill would reduce costs for preparers. Discuss possible concerns with the simplification. Discuss the alternative approaches and their advantages and disadvantages:
- (a) relief from the annual impairment test, with additional indicators added to IAS 36;
 - (b) requiring the annual test only for the first year after an acquisition;
 - (c) requiring the annual test for the first three to five years after an acquisition;
or
 - (d) requiring the impairment test to be performed every three years.
21. Present the Board's preliminary view.

Other simplifications

22. Discuss any further simplifications favoured following additional work prior to the drafting of the Discussion Paper or reconsideration of other suggestions following the setting of objectives in July 2018 and discuss possible concerns with those simplifications.

Items considered but not recommended by the Board

23. Discuss all other simplifications of the accounting for goodwill considered by the Board but not recommended and the reasons why not recommended.

Section 5–Conclusions

24. Provide a summary of the package of the Board’s preliminary views, and the rationale for selecting that package. Discuss how the package would meet the objectives set by the Board in July 2018 and solve the problems identified. Discuss any problems identified that have not been addressed fully and the rationale for this. Discuss the linkage between the preliminary views and how they interrelate. Discuss the cost-benefits of the preliminary views and how cost savings in one area (eg impairment testing) could mitigate justifiable cost increases in other areas (eg disclosures). Discuss any alternatives considered by the Board if applicable.

Appendix A–Objectives rejected by the Board

Improving the effectiveness of the impairment test

- A1. Discuss the current impairment test for goodwill under IAS 36. Discuss the feedback received on the impairment test eg ‘too little, too late’. Discuss the reasons for the feedback and explain the shielding effect of internally generated goodwill and other items. Discuss, or cross refer to the discussion on, the concern over the goodwill balance on the balance sheet. Explain the Pre-acquisition headroom and Updated headroom (UH) approaches and how they might make the impairment test more effective. Include a worked example of the UH approach. Provide feedback received from consultative groups to both approaches and explain the rationale for the Board deciding not favouring either approach, linking this rationale to the Board’s preliminary views.
- A2. Discuss all other improvements considered but not recommended by the Board and the rationale for this.

Identification and measurement of intangible assets such as customer relationships and brands

- A3. Discuss the feedback that gave rise to the research area, the alternatives that were explored and the research findings, the rationale for the alternatives and the reasons for the Board not favouring them.

Appendix B–Interaction with the FASB research project

- B1. Explain the scope of the FASB research project that has been running concurrently with the IASB’s research project. Discuss decisions made in the FASB project and the current status of the project. Compare IFRS 3 and IAS 36 with the US GAAP equivalents. Discuss the interaction between the Goodwill and Impairment research project and the FASB research project and how this has changed during the research project.