

## STAFF PAPER

July 2019

## IASB® meeting

<b>Project</b>	<b>Goodwill and Impairment</b>		
<b>Paper topic</b>	Due process steps and permission to begin the balloting process		
<b>CONTACT(S)</b>	Dehao Fang	fdehao@ifrs.org	+44 (0)20 7246 6416
	Tim Craig	tcraig@ifrs.org	+44 (0)20 7246 6921

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

**Purpose**

1. The purpose of this meeting is to ask permission for the staff to begin the balloting process for a discussion paper.
2. This Agenda Paper:
  - (a) summarises the due process steps undertaken throughout the project and asks the Board if it is satisfied that applicable due process requirements have been complied with;
  - (b) asks the Board to reconfirm the next stage in the Goodwill and Impairment project should be to issue a discussion paper;
  - (c) discusses the length of the comment period for the Discussion Paper;
  - (d) requests permission for the staff to begin the balloting process for the Discussion Paper; and
  - (e) discusses the title for the Discussion Paper.
3. Questions for the Board are included in paragraphs 14, 21, 22 and 25.

**Structure of the paper**

4. The paper is structured as follows:
  - (a) Background (paragraphs 5–9);

- (b) Discussion Paper or Exposure Draft? (paragraphs 10–14);
- (c) Summary of due process requirements (paragraphs 15–19);
- (d) Comment period (paragraphs 20 and 21);
- (e) Permission to begin the balloting process (paragraph 22);
- (f) Title for the Discussion Paper (paragraphs 23–25);
- (g) Next steps (paragraphs 26 and 27);
- (h) Appendix A: Due process steps taken in the development of the Discussion Paper; and
- (i) Appendix B: Public meetings of the Board and its consultative groups during which this project was discussed.

## Background

5. Based on feedback received from the Post-implementation Review (PIR) of IFRS 3 *Business Combinations*, many stakeholders commented that the existing impairment test of goodwill is costly and complex to implement, and that impairment losses are not recognised in a timely and adequate manner. Users of financial statements also commented that disclosures for business combinations were not always adequate and in particular that insufficient information was provided on the subsequent performance of the acquisition. Finally, stakeholders commented that the separate recognition and measurement of some intangible assets can be challenging. The purpose of this research project is to consider this feedback and assess what action, if any, the Board should take.
6. In its June 2019 meeting, the Board reached a preliminary view that it should develop proposals:
  - (a) to amend the disclosure objectives and disclosure requirements for business combinations;
  - (b) to retain the impairment-only model for the subsequent accounting of goodwill;

- (c) to present a subtotal of total equity before goodwill in the statement of financial position;
  - (d) to adopt an indicator-only impairment model for goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use; and
  - (e) to allow estimates of value in use to include (i) cash flows from future restructurings or future enhancements of assets and (ii) post-tax inputs and post-tax discount rates.
7. In its May and July 2018 meetings, the Board had also decided:
- (a) not to pursue proposals to include some intangible assets within goodwill; and
  - (b) having concluded that it was not possible to make significant improvements to the impairment test nor possible to design an impairment test that would target the goodwill in isolation, not to perform further work on the effectiveness of the impairment test.
8. Given the Board’s discussions to date, the consultation document will set out:
- (a) an overview of the issues identified during the PIR of IFRS 3;
  - (b) the various accounting alternatives that the Board has explored;
  - (c) the Board’s preliminary view on proposals that it should develop, and the reasons for doing so; and
  - (d) the Board’s preliminary view on proposals that it should not develop (eg the ‘headroom’ approach), and the reasons for not doing so.
9. Because only a small majority of the Board supported some of the proposals summarised in paragraph 6, particularly with regard to the subsequent accounting for goodwill, the consultation document will provide commentary on both sides of the argument for those proposals and seek stakeholders’ input to help the Board consider further how to address these particular topics.

## Discussion Paper or Exposure Draft?

10. According to the *Due Process Handbook*, the due process steps necessary for the issuance of a consultative document depend on the type of consultative document that the Board plans to publish.
11. The decisions made by the Board so far, as well as the research performed by the staff, have assumed that the next consultative document will be a discussion paper rather than an exposure draft. However, some Board members have previously suggested that certain elements of the project (for example, the discussions on improvements to the calculation of value in use) could be isolated and issued as a separate exposure draft. In fact, in making the decision in its July 2018 meeting to issue a discussion paper as the research project's next step, 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.
12. Issuing a separate exposure draft for these sections could help to expediate the standard-setting process in areas where there is likely to be less controversy and could allow stakeholders to better focus on the issues in a discussion paper where stakeholder feedback will be particularly important in helping the Board decide the appropriate next steps to take in the project.
13. However, the Board may not wish to publish a separate exposure draft on selected issues for the following reasons:
  - (a) Working on two consultative documents concurrently would put stress on resources available and would impact the progress of the project;
  - (b) Those issues that could potentially be isolated and issued as a separate exposure draft have not been identified as urgent; and
  - (c) The staff think that the Board's preliminary views should be presented to stakeholders as a package, enabling stakeholders to assess the costs and benefits from all the individual components considered together. Issuing separate consultation documents for different issues at different times would not allow this.

14. For the reasons highlighted above, the staff do not recommend the Board publish an exposure draft on selected issues alongside a discussion paper and instead issue only a discussion paper as the next stage for the research project.

#### Question for the Board

1. Does the Board agree with the staff recommendation to issue a discussion paper as the next stage in the research project and not to publish an exposure draft on selected items in the project?

### Summary of due process requirements

#### *IASB Meetings*

15. The Board investigated the possible ways to improve IFRS 3 and IAS 36 *Impairment of Assets* in the light of feedback from the PIR of IFRS 3. In discussing the various issues involved and formulating its preliminary views, the Board held a total of 20 public meetings between February 2015 and June 2019 to explore various proposals. Appendix B provides a list of these public meetings and the topics discussed in these meetings.

#### *Meetings with consultative bodies*

16. In addition to public meetings of the Board, the project was also discussed in various meetings of the Board's standing consultative groups, including the Capital Markets Advisory Committee (CMAC), the Global Preparers Forum (GPF), the Accounting Standards Advisory Forum (ASAF), the Emerging Economies Group (EEG), as well as joint meetings with the Financial Accounting Standards Board (FASB). Appendix B provides a list of public meetings held with these various stakeholder groups and the topics discussed in these meetings.
17. Feedback from meetings with these consultative bodies was taken into consideration when the Board reached its preliminary view for the project.

### **Other external consultations**

18. The project was also a topic presented in various conferences organised by the IFRS Foundation, such as the IFRS Conference and the World Standard-setters (WSS) Conference.
19. Board members and the staff have also taken part in regional discussion forums and face to face meetings with various stakeholders in, for example, Europe, Japan, Australia and Singapore. In addition, Board members and staff have discussed aspects of the project in many locations as part of many meetings that discussed a range of the Board's projects. These forums and meetings with national standard-setters, regulators, investors, preparers and practitioners allowed the Board to receive timely feedback as project proposals were developed.

### **Comment period**

20. Paragraph 4.17 of the *Due Process Handbook* states that the Board normally allows a minimum period of 120 days for comment on a discussion paper. For this Discussion Paper, the staff think the following matters should be taken into account when setting a comment period in order to provide sufficient time for constituents to consider the document fully and provide thoughtful responses:
  - (a) the shorter the comment period, the greater the risk that respondents will simply repeat all the old, well-known arguments without moving the debate forward;
  - (b) the Discussion Paper will include a number of topics, including some that were eventually rejected by the Board and others where both sides of the argument are needed to be presented because the Board's position was divided. As a result, stakeholders might need additional time in order to provide useful feedback for the Board;
  - (c) as the publication of the consultative document is expected around the end of 2019, some stakeholders may only start analysing it after, for example, December year-end financial reporting activities have been completed; and

(d) an extended comment period would allow the Board to conduct additional education and outreach to elicit sufficient comments from interested parties to inform the Board’s decision on the next steps for this project.

21. On the other hand, the subject matter of the Discussion Paper does not have as much technical complexity as some other discussion papers published by the Board, which could suggest only the minimum comment period is needed.

**Question for the Board**

2. What comment period does the Board want to allow for the Discussion Paper?

**Permission to begin the balloting process**

22. Appendix A of this paper sets out a summary of the due process steps taken in developing the Discussion Paper. In the staff’s view, the Board has completed all the steps, including all required due process steps, necessary to ensure that the Discussion Paper is likely to meet its purpose. The staff therefore request permission to begin the balloting process.

**Question for the Board**

3. Is the Board satisfied that it has complied with the applicable due process steps? And does the Board provide the staff with permission to begin the balloting process for the Discussion Paper?

**Title for the Discussion Paper**

23. The Board tentatively decided in June 2019 to develop proposals for better disclosures relating to business combinations, not to reintroduce amortisation of goodwill, to present a subtotal of total equity before goodwill in the statement of financial position, to provide relief from the mandatory annual quantitative impairment test, as well as to provide some targeted improvements to the calculation of value in use. With these

tentative decisions, the Board’s most significant proposal focuses on enhancing disclosure objectives and requirements to provide users of financial statements with better information about business combinations, including their subsequent performance.

24. As a result, the staff think that the title of the project ‘Goodwill and Impairment’ may not be fully representative of the content that the Board is proposing to include in the Discussion Paper. During the research project, some stakeholders questioned the relationship between the disclosure objectives and the impairment of goodwill. The staff think that this might be partly due to the current title of the project. Such confusion could impact the feedback received from stakeholders during the consultation.
25. The staff therefore think the Discussion Paper should have a short title that focuses both on better information about business combinations and on subsequent accounting for goodwill. This would help highlight that the potential disclosure proposals are a key element of the Discussion Paper but would also acknowledge that a significant portion of the document will discuss goodwill amortisation and the goodwill impairment test. The staff will develop the title in drafting the pre-ballot draft.

**Question for the Board**

4. Does the Board have any comments on the title of the Discussion Paper?

**Next Steps**

26. If the Board grants permission to begin the balloting process, the staff will start drafting the Discussion Paper.
27. Based on the Board’s publication pipeline and workload, the staff expect publication could occur around the end of 2019.

**Appendix A—Due process steps taken in the development of the Discussion Paper**

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
<b>Discussion or Research Paper development</b>		
<p><b>DP developed in public meetings.</b></p> <p><b>Or</b></p> <p><b>Decision to publish an RP is made in a public meeting, with a clear statement of the extent of the IASB’s involvement.</b></p>	Optional	<p>The Board has discussed the project in 20 public meetings between February 2015 and June 2019. In June 2019, the Board reached a preliminary view of proposals to develop, to be included in the Discussion Paper.</p> <p>Papers for the IASB meetings were posted before each meeting and a summary of each meeting was included in IASB Update.</p>
<p><b>Consultation with the IFRS Advisory Council (the ‘Advisory Council’) has occurred.</b></p>	Optional	<p>The Advisory Council has received updates on the progress of the project.</p>
<p><b>Project-specific updates are sent via email alerts to registered users.</b></p>	Optional	<p>Stakeholders have the ability to opt to follow specific projects on the website which provides them with email alerts on those projects.</p>
<p><b>Consultative groups are established depending on the nature of issues and the level of interest among interested parties.</b></p>	Optional	<p>Not undertaken at this stage.</p>
<p><b>Online survey to generate evidence in support of or against a particular approach.</b></p>	Optional	<p>Not undertaken at this stage.</p>
<p><b>Outreach meetings to promote debate</b></p>	Optional	<p>The project was discussed in several ASAF, CMAC and GPF meetings and at WSS and IFRS conferences during different stages of the project. Please refer to Appendix B</p>

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
<b>and hear views on the financial reporting issue that is being examined.</b>		for a list of meetings of the Board and its consultative groups during which the project was discussed.
<b>Public discussions with representative groups.</b>	Optional	Board members and staff have also taken part in regional discussion forums and face to face meetings with various stakeholders in, for example, Europe, Japan, Australia and Singapore to gather inputs relating to proposals in the project. In addition, Board members and staff have discussed aspects of the project in many locations as part of many meetings that discussed a range of the Board's projects.
<b>Regional discussion forums, where possible, with national standard-setters with the IASB.</b>	Optional	
<b>Podcasts to provide interested parties with high level updates or other useful information about the specific project.</b>	Optional	Not undertaken at this stage.
<b>Publication</b>		
<b>DP or RP has appropriate comment period.</b>	Required	This Agenda Paper discusses the appropriate comment period for the Discussion Paper.
<b>Press release to announce publication of the DP.</b>	Optional	Project team plan to develop this in due course.
<b>Snapshot document to explain the rationale and basic concepts included in the DP.</b>	Optional	Project team plan to develop the snapshot while the Discussion Paper is being drafted.
<b>Webcast of interactive presentations streamed in real time from the IASB's office.</b>	Optional	There is no plan for this at the moment. Project team will consider whether to provide this as part of the Discussion Paper's communications plan.

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
<b>The IASB determines if focused investor consultation is required to supplement the comment letters.</b>	Required if DP issued	Project team will liaise with the investor team regarding focused investor consultation during the comment period.
<b>Request for additional comment and suggestions by conducting fieldwork.</b>	Optional	Project team will consider this as it plans its outreach activities during the comment period.
<b>Round-table meetings between external participants and members of the IASB.</b>	Optional	

## Appendix B—Public meetings of the Board and its consultative groups during which this project was discussed<sup>1</sup>

### *IASB meetings*

Date	Topic
June 2019	<ul style="list-style-type: none"> <li>• Better disclosures for business combinations</li> <li>• Reintroduction of amortisation of goodwill</li> <li>• Presentation of total equity before goodwill subtotal</li> <li>• Relief from mandatory annual impairment test</li> <li>• Value in use—cash flows from a future restructuring or a future enhancement</li> <li>• Value in use—use of post-tax inputs</li> <li>• Preliminary views</li> </ul>
May 2019	<ul style="list-style-type: none"> <li>• Better disclosures from business combinations</li> <li>• Relief from mandatory annual impairment test</li> </ul>
April 2019	<ul style="list-style-type: none"> <li>• Interconnecting issues</li> <li>• Better disclosures for business combinations</li> <li>• Better disclosures—feedback from consultative groups</li> </ul>
October 2018	<ul style="list-style-type: none"> <li>• Additional work to be performed</li> <li>• Identifying better disclosures for business combinations, goodwill and impairment</li> <li>• Discussion paper outline</li> </ul>
July 2018	<ul style="list-style-type: none"> <li>• Setting objectives for the Board’s follow-up work</li> </ul>
May 2018	<ul style="list-style-type: none"> <li>• Next stage in the research project</li> </ul>
April 2018	<ul style="list-style-type: none"> <li>• Recognising identifiable intangible assets acquired in a business combination</li> <li>• Next stage in the research project</li> <li>• Recent feedback from CMAC and GPF</li> </ul>

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<sup>1</sup> All the agenda papers and meeting summaries are available on the project website at <https://www.ifrs.org/projects/work-plan/goodwill-and-impairment/#project-history>

Date	Topic
January 2018	<ul style="list-style-type: none"> <li>• Value in use: What tax attribute should be reflected in value in use?</li> <li>• Value in use: Cash flows from a future restructuring or a future enhancement</li> </ul>
December 2017	<ul style="list-style-type: none"> <li>• Background and objectives of the research project</li> <li>• Subsequent accounting for goodwill</li> <li>• Improving effectiveness of the impairment testing model in IAS 36 <i>Impairment of Assets</i></li> <li>• Courses of action for improving application of IAS 36 <i>Impairment of Assets</i></li> <li>• Possible simplifications to the impairment testing model in IAS 36 <i>Impairment of Assets</i></li> <li>• Improving disclosures about goodwill and impairment</li> </ul>
October 2017	<ul style="list-style-type: none"> <li>• Summary of discussions to date</li> <li>• Improving effectiveness of the impairment testing model in IAS 36 <i>Impairment of Assets</i> (revised 16 October)</li> <li>• Possible simplifications to the impairment testing model in IAS 36 <i>Impairment of Assets</i></li> <li>• Improving disclosures about goodwill and impairment</li> </ul>
July 2017	<ul style="list-style-type: none"> <li>• Summary of discussions to date</li> <li>• Relief from the mandatory annual quantitative impairment testing of goodwill</li> <li>• Improving disclosures about goodwill and impairment</li> <li>• Improving the effectiveness of the impairment testing model in IAS 36</li> </ul>
May 2017	<ul style="list-style-type: none"> <li>• Summary of discussions to date</li> <li>• Simplifying the impairment testing model in IAS 36 <i>Impairment of Assets</i></li> <li>• Improving the effectiveness of the impairment testing model in IAS 36</li> <li>• Improving disclosures about goodwill and impairment</li> </ul>
March 2017	<ul style="list-style-type: none"> <li>• Project Update</li> </ul>

Date	Topic
May 2016	<ul style="list-style-type: none"> <li>• Cover paper including feedback from the 2015 Agenda Consultation</li> <li>• Progress report—improving the impairment requirements</li> <li>• Quantitative study on goodwill and impairment prepared by the Accounting Standards Board of Japan (ASBJ)/European Financial Reporting Advisory Group (EFRAG) staff</li> <li>• Appendices prepared by the ASBJ/EFRAG staff to accompany their quantitative study on goodwill and impairment</li> </ul>
April 2016	<ul style="list-style-type: none"> <li>• The pre-acquisition headroom approach to impairment testing</li> </ul>
March 2016	<ul style="list-style-type: none"> <li>• Customer relationships acquired in a business combination</li> <li>• Improving the disclosure requirements for goodwill and impairment</li> <li>• Improving the impairment test</li> </ul>
February 2016	<ul style="list-style-type: none"> <li>• Identifying and measuring intangible assets acquired in a business combination</li> <li>• Subsequent accounting for goodwill</li> <li>• Improving the impairment requirements for goodwill and other non-current, non-financial assets</li> </ul>
November 2015	<ul style="list-style-type: none"> <li>• Identification and measurement of intangible assets acquired in a business combination</li> <li>• Feedback from users of financial statements about information on goodwill and impairment</li> <li>• Appendices accompanying agenda papers 18A and 18B (for reference only)</li> </ul>
October 2015	<ul style="list-style-type: none"> <li>• Subsequent accounting for goodwill</li> <li>• Improving the impairment test</li> </ul>
February 2015	<ul style="list-style-type: none"> <li>• Post-implementation Review IFRS 3 <i>Business Combinations</i>—next steps</li> </ul>

***Joint IASB and FASB meetings***

Date	Topic
June 2018	<ul style="list-style-type: none"> <li>• Background and current stage of the IASB’s research project</li> <li>• History, Background and Current Stage of the FASB’s research project</li> <li>• Subsequent accounting for goodwill</li> <li>• Recognising identifiable intangible assets acquired in a business combination</li> <li>• Possible simplifications to the impairment testing model in IAS 36 <i>Impairment of Assets</i></li> <li>• Improving disclosures about business combinations, goodwill and impairment</li> </ul>
June 2016	<ul style="list-style-type: none"> <li>• Progress report—goodwill and other intangible assets in a business combination</li> <li>• Progress report—improving the impairment requirements</li> <li>• FASB memo 5—Identifiable Intangible Assets in a Business Combination for Public Business Entities and Not-for-Profit Entities</li> <li>• FASB memo 9—Accounting for Goodwill for Public Business Entities and Not-for-Profit Entities</li> <li>• FASB memo 7—Accounting for Goodwill Impairment</li> </ul>
September 2015	<ul style="list-style-type: none"> <li>• Goodwill and Impairment project plan—approach to the project</li> <li>• Goodwill and Impairment project status update</li> <li>• Goodwill and Impairment—potential model for subsequent measurement of Goodwill for Public Business Entities and Not-for-Profits</li> </ul>

***ASAF meetings***

Date	Topic
April 2019	<ul style="list-style-type: none"> <li>• Australian Accounting Standards Board (AASB) <i>Research Report 9 Perspectives on IAS 36: A Case for Standard Setting Activity</i></li> </ul>

Date	Topic
	<ul style="list-style-type: none"> <li>• Perspectives on IAS 36: A case for standard setting activity (AASB)</li> </ul>
December 2018	<ul style="list-style-type: none"> <li>• Disclosure objectives and requirements; views on amortisation and disclosures supporting amortisation of goodwill</li> </ul>
October 2018	<ul style="list-style-type: none"> <li>• Project update on Goodwill and Impairment</li> </ul>
July 2018	<ul style="list-style-type: none"> <li>• Goodwill and Impairment—presentation</li> </ul>
April 2018	<ul style="list-style-type: none"> <li>• Goodwill and Impairment presentation</li> </ul>
September 2017	<ul style="list-style-type: none"> <li>• The ‘goodwill accretion’ approach (EFRAG presentation)</li> <li>• EFRAG Discussion Paper Goodwill Impairment Test: Can it be improved?</li> <li>• Improving effectiveness of the goodwill impairment testing model</li> </ul>
July 2017	<ul style="list-style-type: none"> <li>• Possible Approach for Addressing the “Too Little, Too Late” Issue (ASBJ paper)</li> <li>• Research Paper No. 3 – Analyst Views on Financial Information Regarding Goodwill (ASBJ paper)</li> </ul>
July 2016	<ul style="list-style-type: none"> <li>• Quantitative study by staff of the EFRAG and staff of the ASBJ</li> <li>• Appendices prepared by the ASBJ/EFRAG staff to accompany their quantitative study on goodwill and impairment</li> </ul>
December 2015	<ul style="list-style-type: none"> <li>• Subsequent accounting for goodwill</li> <li>• Improving the impairment test</li> <li>• Identification and measurement of intangible assets acquired in a business combination</li> <li>• Feedback from users of financial statements about information on goodwill and impairment</li> <li>• Appendices accompanying November agenda papers 18A and 18B (for reference only)</li> </ul>

***Joint CMAC and GPF meetings***

Date	Topic
June 2019	<ul style="list-style-type: none"> <li>Improving disclosures for business combinations</li> </ul>
June 2017	<ul style="list-style-type: none"> <li>Impairment testing of goodwill</li> <li>Appendices accompanying AP5A</li> </ul>

***CMAC meetings***

Date	Topic
November 2018	<ul style="list-style-type: none"> <li>Disclosures and relevance of goodwill</li> <li>Notes on the slides</li> </ul>
March 2018	<ul style="list-style-type: none"> <li>Goodwill and Impairment</li> </ul>
November 2015	<ul style="list-style-type: none"> <li>What information do investors want to receive about goodwill and impairment?</li> </ul>

***GPF meetings***

Date	Topic
November 2018	<ul style="list-style-type: none"> <li>New disclosure objectives and requirements considered for IFRS 3 <i>Business Combinations</i></li> </ul>
March 2018	<ul style="list-style-type: none"> <li>Goodwill and Impairment presentation</li> </ul>
March 2017	<ul style="list-style-type: none"> <li>Simplification of goodwill impairment testing</li> </ul>
March 2016	<ul style="list-style-type: none"> <li>Improvements to IAS 36 impairment requirements: Disclosures</li> </ul>

***Emerging Economies Group meetings***

Date	Topic
March 2019	<ul style="list-style-type: none"> <li>Update on project</li> </ul>
October 2018	<ul style="list-style-type: none"> <li>Overview of Goodwill and Impairment</li> </ul>