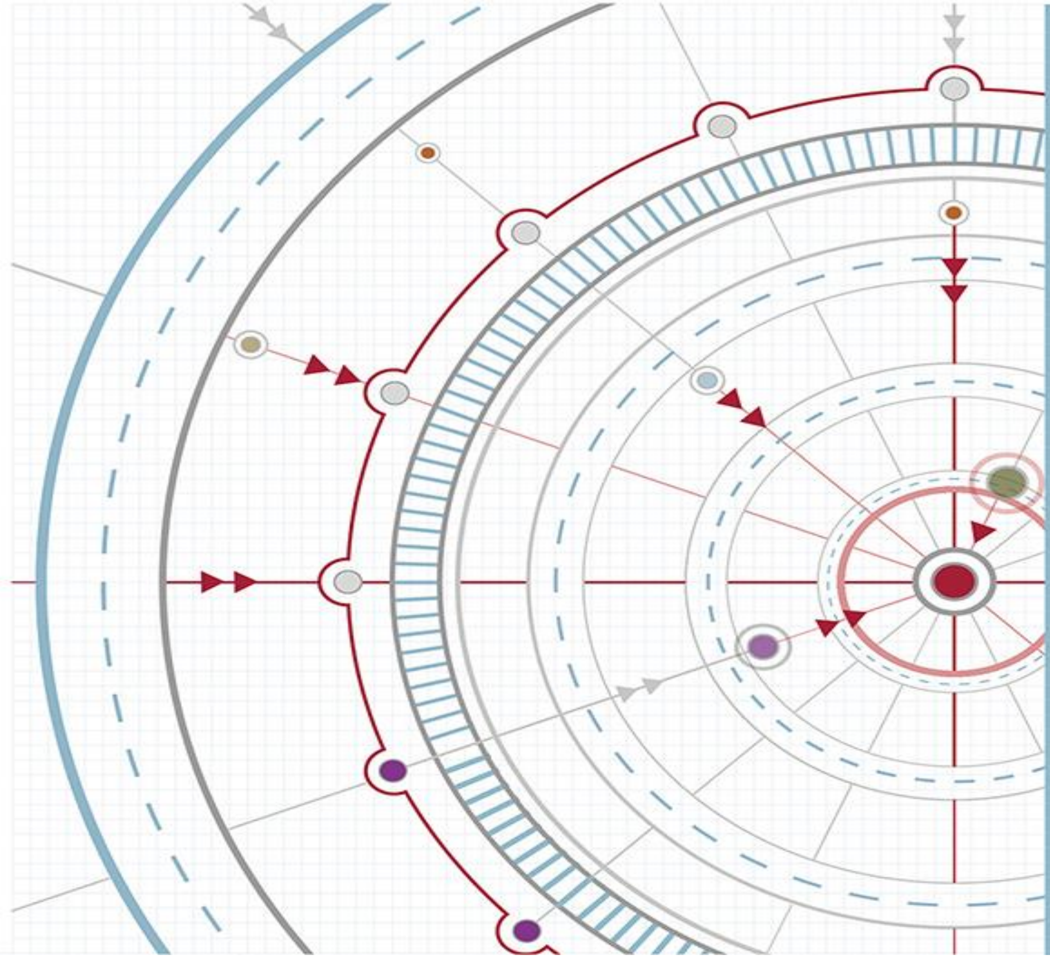

Emerging Economies Group
March 2019

Agenda paper 4

Update on Goodwill and Impairment Project

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

IFRS

Agenda

1. Introduction
2. Identifying better disclosures for business combinations
3. Exploring whether to reintroduce amortisation of goodwill
4. Next steps
5. Questions
6. Appendix

Introduction

Project timeline

2009

Entities started implementing revised IFRS 3 *Business Combinations.*

2013

The Board sought stakeholder feedback on specified matters as part of the Post-implementation Review (PIR) of IFRS 3.

2015

The Board set as research objectives exploring whether to consider:

- changing the subsequent accounting for goodwill;
- allowing identifiable intangible assets to be included within goodwill;
- providing better information about goodwill and impairment through disclosures; and
- improving the impairment test in IAS 36 *Impairment of Assets.*

July 2018

Based on key findings from research project the Board decided to pursue three objectives for follow-up work (see slide 5) and to issue a Discussion Paper as the next step of the project.

2019

The Board will continue its discussions on how to achieve the project objectives and work on drafting a Discussion Paper.

Objectives for the project

✓ The Board tentatively decided to pursue the following three objectives for further exploration of how to address the interrelated problems identified in this research project**:**

Objective A	**Identifying disclosures to enable investors to assess:** • management's rationale for the business combination; and • whether the post-acquisition performance of the business combination meets expectations set at the acquisition date**.**
Objective B	**Simplifying the accounting for goodwill by exploring whether to:** • permit an indicator-only approach to determine when an impairment test is required; and/or • reintroduce amortisation of goodwill.
Objective C	**Improving the calculation of value in use by exploring whether to:** • remove the prohibition on the inclusion in cash flow projections of future enhancements to the asset; and • permit the use of post-tax inputs in the calculation of value in use.

Objective of the meeting

To provide an update on the result of follow-up work for objectives of the project, particularly:

- ✓ identifying better disclosures for business combinations;
- ✓ exploring whether to reintroducing amortisation of goodwill; and
- ✓ next steps for the project.

IFRS Foundation

Identifying better disclosures for business combinations

Work in progress

✓ Staff's ideas to improve disclosures for business combinations are as follows:

Improving existing disclosure objectives of IFRS 3 to meet research objective A on slide 5

Making targeted improvements to existing disclosure requirements of IFRS 3	Developing additional disclosure requirements on subsequent performance of business combinations	Performing limited review of IFRS 3 disclosures in the light of the disclosure objectives

Outreach activities performed by the staff

✓ The staff have conducted the following outreach to help develop and test ideas for identifying better disclosures:

- targeted informal outreach with selected preparers and auditors;
- meetings with diverse stakeholder groups; and
- meetings with the Board's consultative groups (CMAC, GPF, and ASAF)*.

* EEG members can refer to agenda paper for identifying disclosures for the GPF meeting **here**.
(The materials on disclosures for the CMAC and ASAF meetings were the same as for GPF)

Summary of the feedback from outreach with consultative groups

Targeted improvements to existing disclosures of IFRS 3 in the year of acquisition

- Users generally supported staff's ideas and agreed that there is a need for better information.
  - Users were particularly supportive of disclosure of quantitative assessment of expected synergies and separate disclosure of debt assumed.
  - Users asked for pro-forma pre-acquisition information on earnings to permit comparability.
- Preparers generally welcomed providing better disclosures but expressed some concerns:
  - Goodwill is influenced by a number of factors and to quantify these is difficult and this should not be the focus of the disclosures.
  - It can be difficult and costly to quantify expected synergies.
  - Some information, such as quantitative disclosure on synergies or strategic rationale for the transaction, could be commercially sensitive.
  - There are practical difficulties in providing pro-forma pre-acquisition information, so any requirement needs to be pragmatic.

Summary of the feedback from outreach with consultative groups

Additional disclosures on subsequent performance of acquired business

- Most users want this information for stewardship purposes although some users want this for valuation purposes.
- Stakeholders generally supported the staff’s idea to provide this information:
  - Based on a management approach, how an entity monitors and measures whether the key objectives of the business combination have been achieved for its internal reporting purposes, due to the diverse nature of different business combinations.
  - Users noted that where integration occurs, combined information can still be useful.
- However, there were mixed views among stakeholders on:
  - Should this information be required for all material business combinations or should there be a higher level of materiality?
  - The time period the information should be provided for?
- Preparers also expressed concerns on:
  - the ability to provide the information if the acquired business is not separately reported;
  - targets are updated and often not monitored against original acquisition targets; and
  - information could be commercially sensitive and difficult to audit.
- ASAF members generally supported the staff’s ideas but some members shared concerns similar to those expressed by preparers.

Changes made to staff's ideas following feedback from outreach with consultative groups

Targeted improvements to existing disclosures of IFRS 3 in the year of acquisition
• Removed the proposal to require quantitative disclosure of those factors that support goodwill and instead require quantitative disclosure of synergies where expected from the business combination: – Based on feedback from users that quantitative information on synergies is important. – Based on feedback from preparers that the focus of these disclosures should not be goodwill. • Proposed changes to the disclosures of the acquired business' contribution to the Group's results to try and balance users needs and preparers concerns.
Additional disclosures for subsequent performance of acquired business
• Information to be provided to be determined by the information provided to the chief operating decision maker as defined in IFRS 8 *Operating Segments*. – Address concerns on which business combinations the disclosure will be required for.

See **Appendix** for the summary of the staff's current suggestions on new disclosure objectives and related disclosure requirements following the feedback from outreach.

IFRS Foundation

Exploring whether to reintroduce amortisation of goodwill

Rationale for reconsidering amortisation of goodwill

Not possible to make impairment test effective enough to solve “too little too late” issue.

Improved information about post-acquisition performance to be provided through better disclosures.

Amortisation of goodwill

Some still concerned by increasing amounts of goodwill.

Amortisation could be a pragmatic way to reduce the acquired goodwill balance.

Exploring whether to reintroduce amortisation of goodwill

- Stakeholder views during the post implementation review were polarised, and perhaps will always remain polarised.
- No significant new arguments or evidence to support the reintroduction of amortisation identified during the research project.
- Amortisation being reconsidered on cost-benefit grounds rather than for conceptual reasons.
- Decision is whether to change IFRS 3 – not whether people prefer amortisation or impairment-only.
- Hence, staff think there needs to be a strong argument to reintroduce amortisation.

Staff's current arguments for/against amortisation of goodwill

Arguments for amortisation	Arguments against amortisation
• Board's main expectations in adopting impairment-only model have not been as anticipated. – Questionable whether impairment test is rigorous and operational enough (impairment losses too late). – Impairment provides only limited information. – Impairment is costly, complex, and highly judgemental. • Some stakeholders believe a useful life can be estimated for goodwill. • If the aim of subsequent accounting for goodwill is to reduce goodwill balance as it is consumed, amortisation is a pragmatic solution. • Some have concerns over increasing amounts of goodwill balances.	• Impairment-only model provides better information than amortisation. • Impairment test remains a test that recoverable amount of cash generating unit (CGU) exceeds its carrying amount. • Some believe acquired goodwill and internally generated goodwill of CGU a single unit of account. • If impairment tests are performed robustly, with supportable forecasts, there should be no concern regarding goodwill balances. • Arguments remain balanced and therefore no clear argument to reintroduce.

Next steps

Next steps

- ✓ The staff are planning to present ideas for achieving better disclosures to the Board at the April 2019 Board meeting.
- ✓ The staff will recommend that the Board include these ideas, with the Board's views, in the Discussion Paper which is due to be published in 2H of 2019.
- ✓ Arguments for/against amortisation and other topics covered by research project to be incorporated into Discussion Paper.

Questions

Questions to the members

- ✓ Do you have any further feedback on the disclosure ideas discussed with GPF, CMAC and ASAF members including the changes made to the staff's ideas following the feedback from the consultative groups?
- ✓ Do you have any comments on the arguments for and against amortisation presented on slide 16?

Appendix

Possible revised disclosure objectives of IFRS 3

An acquirer **shall** disclose information that enables users of its financial statements:

(a) for business combinations that occur during the **current reporting period** or after the end of the reporting period but before the financial statements are authorised for issue to evaluate:

i. the strategic rationale for the business combination;

ii. the total consideration transferred to obtain control of the acquiree; and

iii. the nature of a business combination and its effect on the acquirer's financial position, financial performance and cash flows for the current period.

(b) for business combinations **that occurred in the current or previous reporting periods** to evaluate:

i. the extent to which the key objectives of past business combinations have been achieved; and

ii. the effects on the acquirer's financial position, financial performance and cash flows of adjustments recognised in the current reporting period.

Targeted improvements to existing disclosure requirements in IFRS 3

- Improvement to paragraph B64(d) of IFRS 3: A description of the **strategic rationale** for the business combination including:
  - the **primary reasons** for the business combination at a broad strategic level; and
  - the **key objectives** of the business combination, being the specific goals that the acquirer aims to achieve in relation to that combination.
- Improvement to paragraph B64(e) of IFRS 3: Where expected, **the amount (or the range of amounts) of the synergies** of the business combination together with expected costs to achieve those synergies and a description of their expected timing and nature.
- Improvement to paragraph B64(i) of IFRS 3: **Separate disclosure of liabilities** arising from financing activities (ie debt acquired in the transaction) at the date of acquisition.
- Improvement to paragraph B64(q) of IFRS 3: The amount of revenue, **operating profit** and **cash flows from operating activities** of the acquiree since the acquisition date included in the consolidated financial statements for the reporting period.

Additional disclosures on post-acquisition performance

In the reporting period in which the business combination occurs:

- what **measures the chief operating decision maker plans to use**, in future internal reporting, to assess the extent to which the key objectives of the business combination have been achieved.

In the reporting period in which the business combination occurs and for at least the next two annual reporting periods:

- the **amounts of those measures** being used to assess the extent to which the key objectives of the business combination have been achieved.

Get involved

Find out more: www.ifrs.org

Follow us: @IFRSFoundation

IFRS Foundation
International Accounting Standards Board

IFRS Foundation

IFRS Foundation

Join our team: go.ifrs.org/careers