

Emerging Economies Group
May 2020
Agenda paper 1

Discussion Paper

Business Combinations— Disclosures, Goodwill and Impairment

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

The Discussion Paper

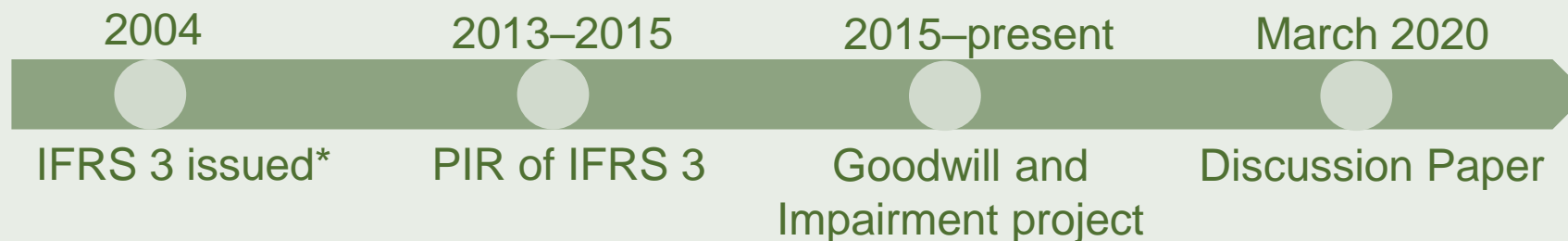


Objective

To improve the information companies provide to investors, at a reasonable cost, about the acquisitions those companies make.



Timeline



Feedback

The Board is mainly seeking comments on:

- the usefulness and feasibility of its new disclosure ideas; and
- new evidence or arguments on how to account for goodwill.

* IFRS 3 introduced the impairment-only approach and replaced IAS 22 which required amortisation.

The Board's preliminary views

1 Improving disclosures about acquisitions	Require companies to disclose: <ul style="list-style-type: none">• management's objectives for acquisitions; and• how acquisitions have performed against those objectives subsequently. Some targeted improvements to existing disclosures.	
2 Improving the accounting for goodwill	A Can the impairment test be made more effective?	Not significantly, and not at a reasonable cost.
	B Should goodwill be amortised?	No, retain the impairment-only model.
	C Can the impairment test be simplified?	Yes, provide relief from the annual impairment test and simplify value in use.
3 Other topics	<ul style="list-style-type: none">• Present on the balance sheet the amount of total equity excluding goodwill.• Do not change recognition of intangible assets separately from goodwill.	

1 Improving disclosures about acquisitions

What is the issue?



Investors do not get enough information about acquisitions and their subsequent performance

- Such information would allow investors to hold management to account (stewardship).
- IFRS Standards do not specifically require companies to disclose information about the subsequent performance of acquisitions.

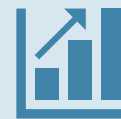
Board's preliminary view: require disclosures

At the acquisition date:



- Strategic rationale for acquisition
- Objectives for the acquisition
- Metrics for monitoring achievement of objectives

After the acquisition date:



Performance against objectives

1 Improving disclosures about acquisitions

Board's preliminary view: Companies should disclose information management uses internally to monitor acquisitions

What metrics should be disclosed?

- No single metric suitable, because business combinations are all different
- Management approach:
 - Less costly to produce
 - Insights into how management manages acquisitions
- Can be operational or financial metrics
- Might be information about combined business where integration occurs

Should all material acquisitions be disclosed?

- Disclosure of all material acquisitions could be onerous for serial acquirers
- Preliminary view: define 'management' as 'chief operating decision maker' (CODM) (IFRS 8 *Operating Segments*)
- Are these the acquisitions that investors would like to know more about?

2 Improving the accounting for goodwill

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What are the issues?



Impairment losses on goodwill are recognised too late

Could be due to:

- too optimistic cash flow estimates; or
- shielding of goodwill from impairment by headroom (see next slide)

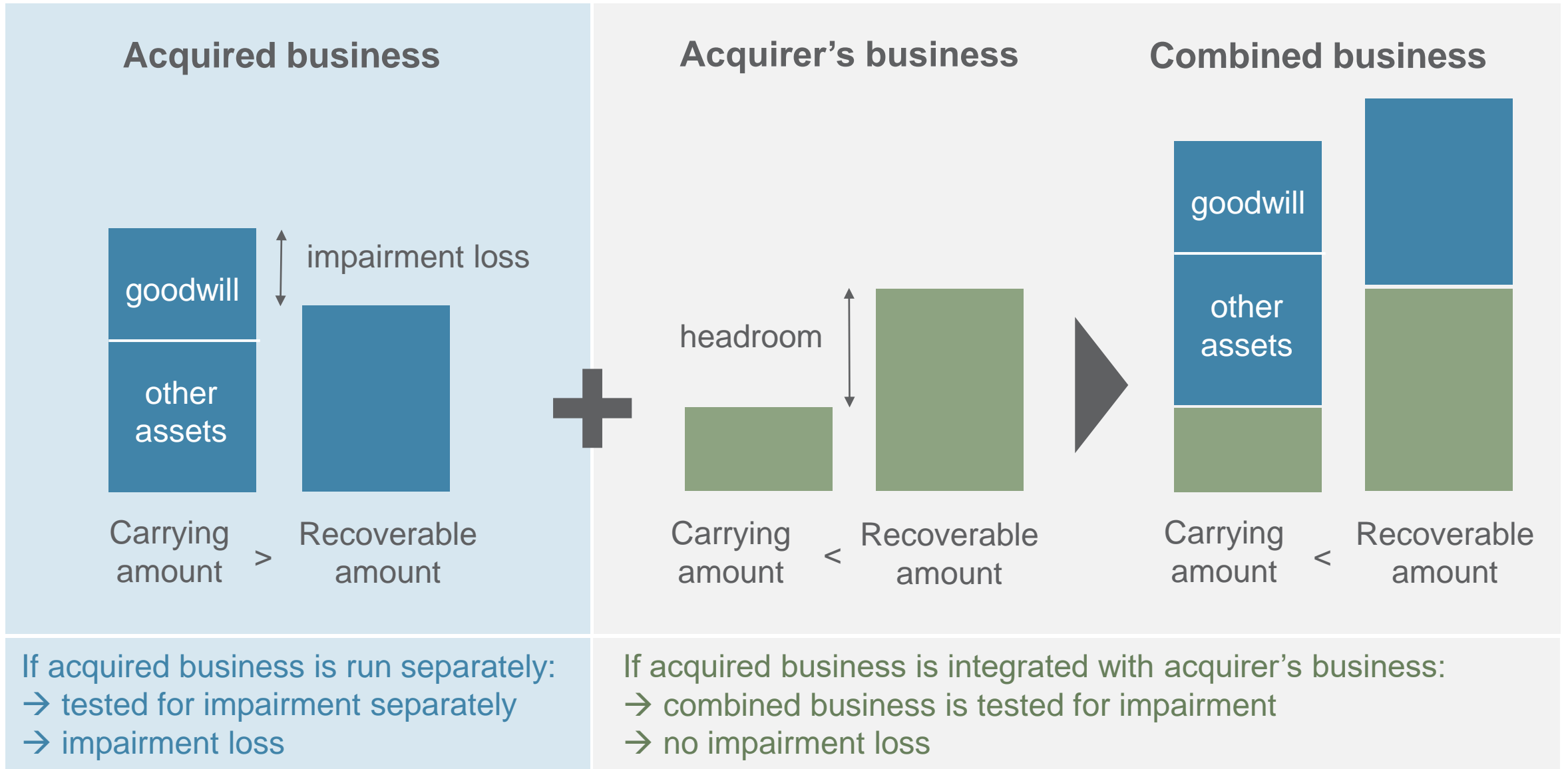


The impairment test is complex and costly for companies

Research undertaken by the Board

- A** Can the impairment test be made more effective?
- B** Should goodwill be amortised?
- C** Can the impairment test be simplified?

2 Background—shielding



2 A Can the impairment test be made more effective?

Board's preliminary view

No feasible alternative test

- It is not feasible to make the impairment test for goodwill significantly more effective at a reasonable cost to companies.
- Shielding cannot be eliminated because goodwill has to be tested for impairment with other assets.

The test is not intended to test goodwill directly

- The test cannot always signal how an acquisition is performing, but that does not mean that the test has failed.
- When performed well, the test ensures that the carrying amount of the CGU as a whole is recoverable.

Disclosure solution

The disclosure requirements discussed on slides 4–5 could provide information that investors need about the performance of acquisitions.

2 B Amortisation of Goodwill vs Impairment-only

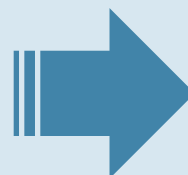
Amortising goodwill	Retaining the impairment-only model
some say...	others say...
Goodwill is overstated, so management is not held to account.	The impairment-only model provides useful confirmatory information to investors.
Amortisation is simple and targets acquired goodwill directly.	Amortisation is arbitrary and would be ignored by many investors.
The impairment test is not working as well as the Board intended.	If applied well, the impairment test works as the Board intended, ensuring that, as a group, goodwill and other assets of a business are not overstated.
Goodwill is a wasting asset. Amortisation is the only way to show the consumption of goodwill.	The benefits of goodwill are maintained for an indefinite period, so goodwill is not a wasting asset.
Amortisation would ultimately make the impairment test easier and less costly to apply.	Amortisation would not significantly reduce the cost of impairment testing, especially in the first few years.

2 B Amortisation of Goodwill vs Impairment-only

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Board's preliminary view

There is no compelling evidence that amortisation would significantly improve financial reporting



Retain the impairment-only approach



The Board majority was small.
Stakeholders are invited to provide new arguments to help the Board decide how to move forward on this topic.

2C Simplifying the impairment test

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Relief from an annual impairment test



Having to perform the test annually, even when they have no reason to suspect an impairment has occurred, adds unnecessary cost.



- Remove requirement to test CGUs containing goodwill for impairment at least annually.
- Companies must still assess whether there is any indicator of impairment, and perform the impairment test if there is.

Simplifying value in use estimates



IAS 36 contains certain restrictions on value in use that add cost and complexity to the test, and deviates from common industry practice.



- Remove restriction on including some cash flows in value in use estimates.
- Cash flow forecasts still need to be reasonable and supportable.
- Allow use of post-tax discount rates and post-tax cash flows.

3 Other topics

Presenting total equity before goodwill

Goodwill is different from other assets because it:

- can only be measured indirectly; and
- cannot be sold separately.

Presenting **total equity excluding goodwill** on the balance sheet helps to make this amount **more prominent**, drawing investors' attention to companies whose goodwill constitutes a significant portion of their net assets.

Intangible assets

Some believe that recognising these assets separately helps explain what the company has bought in an acquisition. Others think that the information is of limited use.

In the Board's view:

- there is no compelling evidence to change existing requirement; and
- aligning the accounting treatment for all intangible assets is beyond the scope of this project.

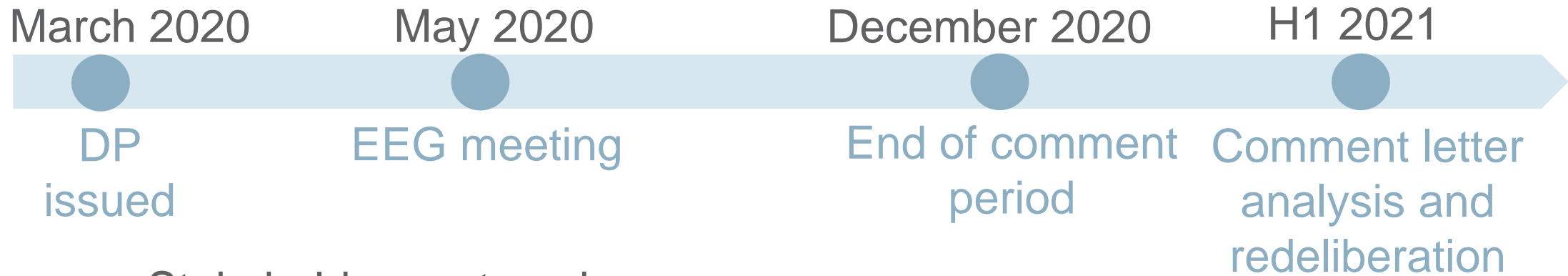
A balanced package

Possible changes the Board considered	Objectives		Board's preliminary view
	More useful information	Reduce cost	
1 Improve disclosures about acquisitions	✓	✗	Yes, change
2 Amortise goodwill	✗	✓	No, do not change
Provide relief from annual quantitative impairment test	...	✓	Yes, change
Amend how value in use is estimated	✓	✓	Yes, change
3 Present total equity excluding goodwill	✓	...	Yes, change
Include some intangible assets in goodwill	✗	✓	No, do not change

 In line with objective
  In conflict with objective
 ... No significant impact

Outreach and fieldwork

Outreach and fieldwork



Stakeholders outreach

- (virtual) roundtables in various jurisdictions for all stakeholders
- focused investor outreach

Project fieldwork – preparers



Issues to consider in obtaining effective feedback



- How will you mitigate impact on outreach of restrictions during the covid-19 pandemic?
- How will you engage stakeholders at times when occupied dealing with turmoil in markets?
- How will you engage users to provide feedback on the discussion paper, especially on the new disclosures?
- How will you encourage preparers to consider solutions to the barriers they raise on the new disclosures?
- How do you intend to get new evidence and arguments on amortisation vs impairment-only?
- How will you encourage stakeholders to consider as a package of preliminary views rather than as individual views in isolation?

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