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The Discussion Paper

Objective

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

Timeline

2013–2015: PIR of IFRS 3*
2015–present: Goodwill and Impairment project
March 2020: Discussion Paper
December 2020: End of comment period

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.
Stakeholders’ feedback from the PIR of IFRS 3 includes:

- Investors do not get enough information about acquisitions and their subsequent performance
- The impairment test is complex and costly for companies
- Impairment losses on goodwill are recognised too late
- Goodwill should be amortised. It has been paid for and so, sooner or later, it should have an impact on profit or loss.
- It is difficult for companies to account for intangible assets such as customer relationships and brands separately from goodwill.
The Board’s preliminary views

<table>
<thead>
<tr>
<th></th>
<th>Improving disclosures about acquisitions</th>
<th>Require companies to disclose:</th>
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<tbody>
<tr>
<td>1</td>
<td>Management’s objectives for acquisitions; and</td>
<td></td>
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<td></td>
<td>How acquisitions have performed against those objectives subsequently.</td>
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<tr>
<th></th>
<th>Improving the accounting for goodwill</th>
<th>Can the impairment test be made more effective?</th>
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<tr>
<td>2</td>
<td>Not significantly, and not at a reasonable cost.</td>
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<tr>
<td></td>
<td>Should goodwill be amortised?</td>
<td>No, retain the impairment-only model.</td>
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<tr>
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<td>Can the impairment test be simplified?</td>
<td>Yes, provide relief from the annual impairment test and simplify value in use.</td>
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<tr>
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<th>Other topics</th>
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<tbody>
<tr>
<td>3</td>
<td>Present on the balance sheet the amount of total equity excluding goodwill.</td>
</tr>
<tr>
<td></td>
<td>Do not change recognition of intangible assets separately from goodwill.</td>
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**Discussion with ASAF members**

**Purpose of meeting**

- Discuss initial feedback received by the Board and how it compares to initial feedback ASAF members have collected in their jurisdictions to date
- Discuss ASAF members plans to stimulate further feedback

**Questions for ASAF members**

<table>
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<tr>
<th>Discussion Paper</th>
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<tr>
<td>• The Appendix lists the initial feedback that the Board has heard. Have you heard similar or different feedback as the Board?</td>
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<tr>
<td>• Do you have any suggestions how the Board may resolve some of the issues identified?</td>
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<tr>
<td>• Do you have any other comments on the feedback?</td>
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<tr>
<th>Outreach &amp; Fieldwork</th>
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<tbody>
<tr>
<td>• What outreach or fieldwork have you conducted so far?</td>
</tr>
<tr>
<td>• What outreach or fieldwork plans do you have in the coming months?</td>
</tr>
</tbody>
</table>
Appendix

Initial feedback on the Discussion Paper
Improving disclosures about acquisitions

Overall message
- Agree with direction
- Users generally think information would be useful
- Some concerns over implementation

Specific area of concern—Disclosing objectives and performance of acquisitions

Board’s preliminary view
- At the acquisition date:
  - Strategic rationale and objectives
  - Metrics for monitoring achievement of objectives
- After the acquisition date:
  - Performance against objectives

Initial feedback received
- Information not currently provided
- Information needed for stewardship purposes
- Not comparable across companies
- Better placed in management commentary
- Information may be forward-looking
- Information may be commercially sensitive
- Integration prevents information being provided

Board’s preliminary view
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Overall message

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## Improving disclosures about acquisitions

<table>
<thead>
<tr>
<th>Specific area of concern—Disclose information based on what Chief Operating Decision Maker monitors</th>
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<tbody>
<tr>
<td><strong>Board’s preliminary view</strong></td>
</tr>
<tr>
<td>• Management defined as the Chief Operating Decision Maker (CODM) as per IFRS 8 <em>Operating Segments</em></td>
</tr>
<tr>
<td>• Provide additional disclosures about objectives and targets based on the information about acquisitions that the CODM monitors</td>
</tr>
<tr>
<td><strong>Initial feedback received</strong></td>
</tr>
<tr>
<td>• Why is a different materiality threshold applied?</td>
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<tr>
<td>• Insufficient guidance in IFRS 8 to identify CODM</td>
</tr>
<tr>
<td>• Information the CODM monitors is not granular enough</td>
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<tr>
<td>• Disconnect between proposed disclosures and goodwill impairment</td>
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</table>
Improving disclosures about acquisitions

Specific area of concern—Targeted disclosure improvements

Board’s preliminary view
Companies should disclose:
• Amount of expected synergies
• Debt and pension liabilities acquired
• Actual and pro-forma revenue, operating profit and operating cash flow

Initial feedback received
• Difference in views between users and preparers over disclosure of expected synergies
• General agreement for debt and pension liability disclosures
• General agreement for disclosure of operating profit; some reservations about operating cash flow
## Improving the accounting for goodwill

### Overall message
- Stakeholders remain split over impairment-only vs amortisation
- No new evidence or arguments provided for either view

### Specific area of concern—Simplifying and improving the impairment test

#### Board’s preliminary view
- Retain impairment-only model
- Current impairment test cannot be significantly improved
- Relief from annual impairment test
- Simplify VIU calculation
  - include restructuring cash flows
  - allow post-tax calculations

#### Initial feedback received
- Provide guidance on allocating goodwill to CGUs
- Require disclosure of actual vs forecasted cash flows to discourage over-optimism
- Concerns that relief will impact robustness of test
- Support for proposed changes to VIU calculation, but with some concerns over impact on robustness
- Require impairment testing before restructuring
- Allow companies to roll forward calculations more easily
Specific area of concern—Intangible assets and presenting total equity excluding goodwill

Board’s preliminary view

• No compelling evidence that the recognition criteria for intangible assets acquired in a business combination should be changed
• Companies should present total equity excluding goodwill

Initial feedback received

• Views continue to be mixed about whether the separate recognition of all identifiable intangible assets in a business combination provides useful information
• General disagreement for presenting total equity excluding goodwill
  • calls into question whether goodwill is an asset
  • unnecessary as stakeholders are able to compute the amount easily
Get involved

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