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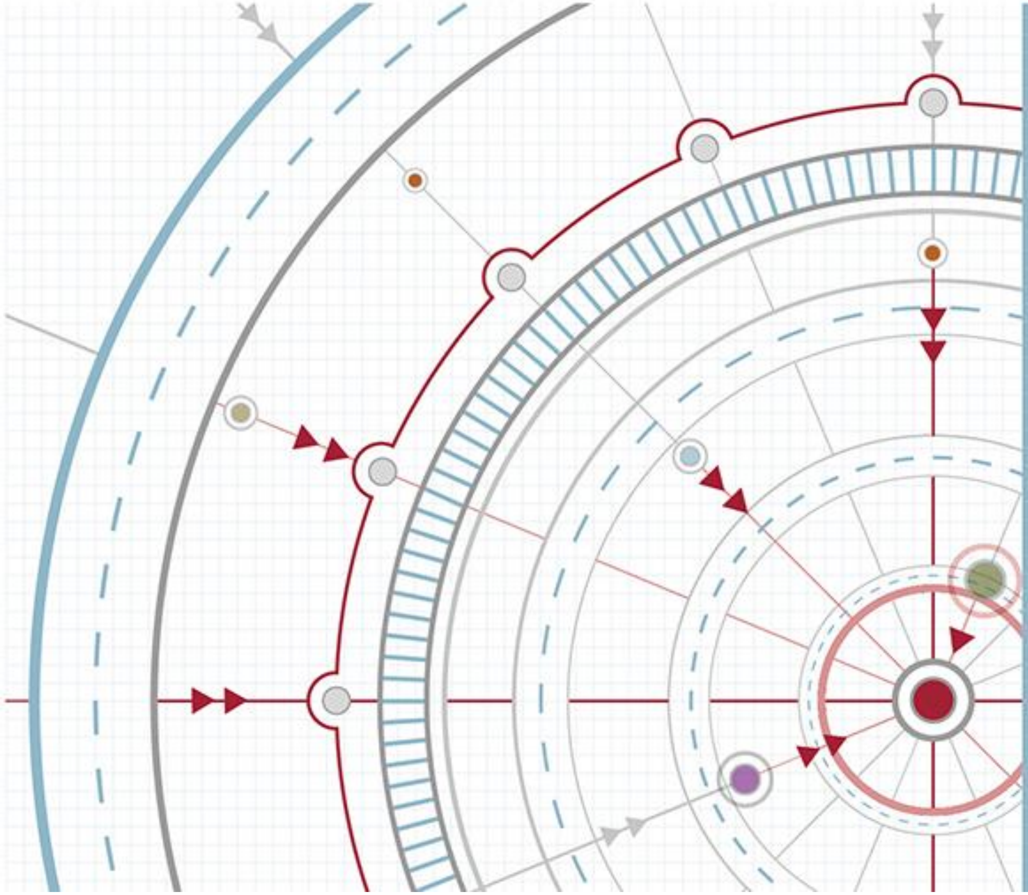

Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*

Joint CMAC and GPF meeting
October 2020

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

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Purpose and contents

Purpose: To obtain feedback from CMAC and GPF members about three particular areas of the Board's preliminary views described in Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*

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Project background & overview

The Discussion Paper

Objective

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

Timeline

- 2004 — IFRS 3 issued*
- 2013–2015 — PIR of IFRS 3
- 2015–present — Goodwill and Impairment project
- March 2020 — Discussion Paper

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 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

❶ Improving disclosures about acquisitions	Require companies to disclose: • management’s objectives for acquisitions; and • how acquisitions have performed against those objectives subsequently.	
❷ 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.
❸ Other topics	• Present on the balance sheet the amount of total equity excluding goodwill. • Do not change recognition of intangible assets separately from goodwill.	

Past joint CMAC-GPF discussions

Meeting Date	Topic discussed
June 2019	Barriers that might prevent a company disclosing information about the subsequent performance of business combinations. In particular, CMAC and GPF members discussed barriers that result from commercial sensitivity and integration of the acquired business.
June 2017	Whether additional disclosures about acquisitions should be required and whether any of the existing disclosure requirements in IAS 36 can be removed. Removing the annual, mandatory quantitative impairment test and moving to indictor based impairment testing.

Breakout session guidelines

Breakout sessions guidelines

- Three topics to cover:
    1. Location of information about subsequent performance of acquisitions (slides 10–11)
    2. Disclosures about synergies (slides 12–13)
    3. Reversal of goodwill impairments (slides 14–15)
- We ask that Group 1 starts its discussion with Topic 1 and that Group 2 starts with Topic 2.

Location of information about subsequent performance of acquisitions

Board's preliminary view: A company should disclose information about acquisitions and their subsequent performance in the company's financial statements

Alternative view

Some stakeholders have suggested that this information should be included in a company's management commentary rather than in its financial statements.

Why some have the alternative view

- Management's analysis of performance
- Information might not be prepared in accordance with IFRS
- Information may be forward looking

Why include in financial statements?

- Management commentary does not always include information about acquisitions
- Management commentary is not provided on the same terms as financial statements in all jurisdictions

Breakout session—Topic 1

Objective: To obtain CMAC/GPF member views as to the best location for a company to provide information about the subsequent performance of business combinations.

Points to discuss in the breakout session

CMAC members:

- In your experience, do companies voluntarily disclose information about the subsequent performance of business combinations against initial expectation?

GPF members:

- Would you provide this information if the Board did not require it in financial statements?

All:

- Do voluntary disclosures of information about subsequent performance of business combinations vary by jurisdiction or industry?
- Are there other factors the Board should consider when deciding on the information location?

Disclosures about synergies

Board's preliminary view: To the extent material, a company should disclose quantitative information about the amount or range of expected synergies in the year of acquisition.

Background	IFRS 3 requires a qualitative description of synergies if they make up a key component of goodwill. The Board may expand this requirement so that companies disclose: 1) a description of the expected synergies; 2) when the synergies are expected to be realised; 3) the estimated amount or range of amounts of the synergies; and 4) the estimated cost or range of costs to achieve those synergies.
Stakeholder concerns	Some companies have told us that they do not estimate the amount of or range of synergies when acquiring a business. Therefore it will be difficult to provide quantitative information on synergies.

Breakout session—Topic 2

Objective: To obtain CMAC/GPF member views as to the usefulness of quantitative information about synergies expected in a business combination.

Points to discuss in the breakout session

CMAC members:

- In your experience, do companies typically disclose information about the amount of expected synergies? If so, where?
- What do you use information about synergies for?

GPF members:

- Do you estimate the amount of potential synergies when determining how much to pay for an acquisition?
- If not, how do you know you paid the right price?

All:

- Do you think information about synergies should be disclosed in a company’s financial statements?

Reversal of goodwill impairments

Board's preliminary view: Not discussed by the Board.

Background	Unlike for other intangible assets, IAS 36 does not permit a company to reverse a previously recognised impairment of goodwill. It is not possible to tell how much of any increase in the recoverable amount is attributable to the recovery of acquired goodwill rather than an increase in internally generated goodwill. Internally generated goodwill is not recognised as an asset.

Stakeholder concerns	Some say that, in periods of uncertainty (eg as a result of covid-19), the inability to reverse impairment losses on goodwill may contribute to the 'too little, too late' problem. When faced with uncertain economic events management may adopt a 'wait and see' approach to prevent an impairment of goodwill, that might have been unnecessary when the uncertainty is resolved.

Breakout session—Topic 3

Objective: To explore the behavioural aspects related to reversing impairment losses on goodwill.

Points to discuss in the breakout session

CMAC members:

- What information would a reversal of goodwill impairments provide you?
- Would the recognition of future impairment losses after a reversal reduce management's credibility?

GPF members:

- Do you consider impairment tests in interim and annual periods differently?
- Can you identify the reason for any increase in a CGU's recoverable amount?

All:

- In periods of uncertainty, do you think there is a danger of management using cash flows that represent the most optimistic scenario?

Next Steps

Remainder of Comment period

- Comment letters requested by **31 December 2020**. Comment letters can be submitted on our website at https://www.ifrs.org/projects/work-plan/goodwill-and-impairment/comment-letters-projects/dp-goodwill-and-impairment/
- Comment letters received can be viewed at the same link
- Project outreach activities with stakeholders to continue

During H1 2021

- Feedback analysis and redeliberations

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