STAFF PAPER

April 2021

IASB® meeting

Project	Goodwill and Impairment	
Paper topic	Feedback from users of financial statements	
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Objective

1. This paper analyses feedback from users of financial statements (users) on the International Accounting Standards Board's (Board) preliminary views set out in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*.

Key messages

2. Almost all users supported the Board's preliminary view to enhance disclosures for business combinations. Most users suggested that existing disclosure requirements do not provide them with sufficient useful information. Many users are particularly interested in information about the subsequent performance of business combinations and about expected synergies from business combinations to help them better understand the rationale of the transactions, as well as to hold management to account. However, some users were sceptical whether the enhanced disclosure requirements would be effective in providing users with more useful information.

3. Users were split in their support for retaining the impairment-only model or for reintroducing amortisation of goodwill. Although most users that commented said convergence between US generally accepted accounting principles (US GAAP) and IFRS Standards on this topic would be desirable, for most of these users it is more important for the Board to reach the appropriate conclusion on the issue.

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4. Most users disagreed with the Board's preliminary view to require entities to present total equity excluding goodwill on the statement of financial position.

5. Most users supported the Board's preliminary view not to amend existing requirements regarding the recognition of identifiable intangible assets acquired in a business combination.

Structure of the paper

6. This paper is structured as follows:

   (a) Summary of types of user feedback (paragraphs 7–10);

   (b) Better disclosures about business combinations (paragraphs 11–53);

   (c) Subsequent accounting for goodwill (paragraphs 54–92);

   (d) Other topics (paragraphs 93–102); and

   (e) Question for the Board.

Summary of types of user feedback

7. The Board received 10 comment letters from users, including:

   (a) 8 user representative groups;

   (b) 1 individual user; and

   (c) 1 buy-side firm.

8. Some national standard-setters also provided feedback from users within their jurisdictions in their comment letters to the Board.

9. In addition, between March 2020 and January 2021, the staff had 30 meetings with users and user representative groups to discuss the Board's preliminary views included in the Discussion Paper. These meetings included:

   (a) 1 meeting with the Capital Markets Advisory Committee (CMAC);

   (b) 8 meetings with national standard-setter user advisory groups;

(c) 12 meetings with user representative groups; and

(d) 9 meetings with individual users or individual organisations.

10. The analysis in this paper includes the feedback from the comment letters and from the outreach meetings.

Better disclosures about business combinations

11. In the Board's preliminary view, it should add further disclosure objectives to IFRS 3 *Business Combinations* that would require an entity to provide information to help users to understand:

    (a) the benefits that an entity's management expected from an acquisition when agreeing the price to acquire a business; and

    (b) the extent to which management's objectives for a business combination are being met.

12. In order to implement those objectives, in the Board's preliminary view, it should develop proposals that:

    (a) would require an entity to disclose information about the subsequent performance of business combinations based on what management of the entity monitors internally (paragraphs 16–40); and

    (b) make targeted improvements to the disclosure requirements included in IFRS 3 (paragraphs 41–53).

13. All users who commented agreed with the Board's preliminary view to add additional disclosure objectives to IFRS 3. Most of those users agreed with the disclosure objectives suggested by the Board. Some users also highlighted the types of information that they would require in order to meet their information needs. These included information about:

    (a) how the transaction price is determined and how the deal is structured;

    (b) the assets and liabilities that were acquired and how they were valued;

(c) the nature and amount of expected synergies anticipated to arise from the business combination; and

(d) whether management's objectives and targets for the business combinations are being met.

14. Almost all users welcomed the Board's preliminary view to require an entity to provide better disclosures about business combinations. Users were particularly interested in the Board's preliminary view to require an entity to disclose information about the subsequent performance of acquisitions, as well as quantitative information about the synergies expected from a business combination. In their view, disclosures currently provided by entities are inadequate. Some users commented that they need better information about business combinations to enable them to:

    (a) understand the economics of the transaction; and

    (b) hold management to account.

15. While users generally agreed with the Board's preliminary views on providing better disclosures about business combinations, a few users commented that the proposed improvements for disclosures should not be viewed as a solution to address issues with subsequent accounting of goodwill. In their view, disclosures about business combinations and the subsequent accounting for goodwill are separate issues and should be dealt with by the Board separately. However, a few other users commented that that the new disclosures suggested by the Board could help resolve some of the issues with the impairment test.

Disclosures about subsequent performance of business combinations

16. Almost all users agreed with the Board's preliminary view to develop proposals to require an entity to disclose the strategic rationale and management's targets for a business combination and its subsequent performance. A few users disagreed with the Board's preliminary view because they were sceptical that the Board would be able to develop proposals that could provide users with the information they need.

17. Many users commented that requiring the information to be disclosed for only two full annual periods after the acquisition could be too short. Some of these users

commented that they would like to see information be provided for a longer period, ranging from three years to five years after the acquisition is made.

18. Some users were concerned that these potential requirements could result in an entity disclosing boiler plate information. A few users stressed that the information disclosed about the subsequent performance of business combinations needs to be quantitative for it to be useful. However, one user commented that requiring an entity to disclose quantitative information could impede the entity's ability to convey the true objective and achievement of a business combination.

Adopting a management approach

19. In the Board's preliminary view, it should develop proposals that would require an entity to provide users with information about the subsequent performance of business combinations based on how management monitors business combinations internally (a management approach). The Board defined management using the entity's Chief Operating Decision Maker (CODM) as described in IFRS 8 *Operating Segments*. If the metrics used to monitor the performance of the business combination change, the entity would need to disclose the change, the reason for the change, as well as the performance of the business combination based on the revised metric.

20. Users agreed that more information is needed about business combinations but had different opinions on whether a management approach should be applied for the disclosures of the subsequent performance of business combinations, specifically:

    (a) Most users agreed with the Board that entities should apply a management approach for disclosing the subsequent performance of business combinations.

    (b) A few users disagreed with the management approach because they would not trust management to provide objective and useful information if the approach is adopted. One user representative group suggested the Board focus on requiring entities to provide better disclosures about goodwill instead of the subsequent performance of business combinations.

21. Some users agreed with the management approach in general but suggested the Board implement measures to prevent abuse by management. These measures included:

(a) The Board should, in addition to requiring entities to disclose the metrics that management monitors, prescribe a minimum set of basic metrics to be disclosed for all business combinations for which disclosures about subsequent performance would be required, whether or not management uses those basic metrics.

(b) Management should not be allowed to change the metrics that were used to monitor the business combination.

(c) Entities should not be allowed to avoid disclosing performance of business combinations by declaring that management is not monitoring those business combinations for which disclosures about subsequent performance would otherwise be required.

22. Those users who asked the Board to prescribe a minimum set of basic metrics (paragraph 21(a)) suggested:

(a) some form of return on capital measure (such as return on equity, return on invested capital or return on capital employed);

(b) internal rate of return;

(c) revenue;

(d) profit or loss for the period; and

(e) operating margin.

23. The Board expressed the preliminary view that an entity should be required to disclose when there is a change in the metrics used to monitor an acquisition or when the entity does not monitor the success of a business combination. Most users who commented agreed with that preliminary view. In those users' view, requiring entities to disclose such information could help to instil market discipline and prevent management abuse. A few users also commented that such a requirement would prompt management to implement systems and processes to monitor the performance of acquisitions, potentially enhancing value through better corporate governance.

Disclosing performance of business combinations that the CODM monitors

24. Users had various opinions on whether the CODM is the appropriate threshold to use to determine the business combinations for which information about subsequent performance should be disclosed. Users who agreed with the Board's preliminary view commented that using the CODM as the threshold is a practical approach to achieve the Board's disclosure objective.

25. Some users disagreed with the Board's preliminary view to use CODM as the threshold. These users have different views on whether an entity would disclose sufficient information under a CODM approach:

    (a) Most of these users stated that the approach would result in entities not providing users with sufficient information if an entity's CODM is not monitoring all material business combinations.

    (b) One user said that the approach would result in entities disclosing excessive immaterial information, which could be too costly for preparers. This user expected an entity's CODM to monitor most, if not all, acquisitions.

26. A few user representative groups commented that the management approach adopted in IFRS 8 failed to provide users with detailed information that is comparable across different entities. In their view, entities could avoid making the necessary disclosures by arguing that the performance of the business combination is monitored at a lower level of management than the CODM. These user representative groups were therefore sceptical whether adopting the same threshold as in IFRS 8 would be able to meet users' information needs. One of those user representative groups further commented that expanding the use of the CODM to other disclosure items, rather than relying on the concept of materiality, could set a dangerous precedent for future standard-setting.

27. Some of those users who disagreed with the CODM approach suggested alternative ways to identify the business combinations that entities need to disclose information about their subsequent performance. These users suggested that enhanced disclosures should be provided for:

    (a) business combinations that are 'fundamental' to the reporting entity; or

(b) all material acquisitions.

28. A few users suggested that the Board consider what information an entity should be required to disclose if the entity is undertaking a series of smaller acquisitions to achieve a single strategic objective. These users were concerned that a CODM approach would not capture important information about whether the entity's overall strategy was achieved.

Practical challenges

29. During the development of the Discussion Paper, the Board heard concerns from some stakeholders, mainly preparers, about practical challenges in implementing the Board's preliminary views. Users commented on those practical challenges during outreach activities, as well as in their comment letters submitted to the Board. These practical challenges included:

    (a) integration of business combinations could prevent entities from disclosing useful information (paragraphs 30–33);

    (b) the information required could be commercially sensitive (paragraphs 34–38); and

    (c) auditability of the information (paragraph 39).

Integration of business combinations

30. All users who commented on the issue stated that, in their view, management monitors the subsequent performance of business combinations. A few users acknowledged that management's ability to monitor the performance of a business combination may be impeded by the integration of the acquired entity into the existing operations of the acquirer. However, those users commented that management should be able to monitor the performance of the combined entity and provide useful information about how the combined business is meeting management's objectives.

31. A few users also commented that information about the subsequent performance of business combinations becomes less useful over time as the acquired business is integrated into the existing business of the acquirer. In their view, the appropriate time frame to provide the information varies depending on the acquisition and industry.

32. One user stated that business combinations often involve contingent consideration that would require entities to monitor the achievement of contractual targets. In its view, the widespread use of contingent consideration suggests that management has the information needed to monitor the subsequent performance of a business combination and whether management's objectives for the business combination are being achieved.

33. One user representative group commented that if integration makes it difficult to monitor the subsequent performance of business combinations, an entity should disclose more, rather than less, information to enable users to understand how the acquired business is integrated and how management track the performance of the combined business.

Commercial sensitivity

34. Many users considered the information that would be disclosed applying the Board's preliminary views to not be commercially sensitive. In their view, entities often use commercial sensitivity as an excuse to avoid disclosing the information that users need.

35. A few users said that the strategic objective of a business combination is rarely kept secret from competitors operating in the same market. These users commented that:

    (a) entities would be able to provide the information that users need without necessarily disclosing sensitive information.

    (b) the strategy and targets of large acquisitions are often actively publicised by the entity during road shows, investor presentations or through other marketing materials to attract market attention, and are therefore already known to the market;

    (c) it is important for listed companies to be transparent about the business combinations that they entered into, as these transactions often involve large amounts of money raised from capital markets; and

    (d) users ultimately bear the cost of disclosures that an entity makes and the benefits of disclosures to users outweigh the harm caused by sensitive disclosures.

36. Some users said that they are interested only in 'fundamental' or 'significant' business combinations. In their view, these business combinations are more important and therefore the benefit of disclosure outweighs the concern for commercial sensitivity. One user representative group further commented that single large business combinations are not as commercially sensitive as business combinations that form part of a series of strategically linked business combinations.

37. Some users said information may be commercially sensitive in some circumstances, for example, when an entity plans to reduce its staff costs or to launch new products in a new market. In their view, an entity may not need to provide such detailed information that, if disclosed, could harm the entity's interests, and the Board should seek to strike an appropriate balance between users' needs and preparers' concerns.

38. One user suggested the Board consider having different disclosure requirements for single large acquisitions (where commercial sensitivity is seen to be less of a concern) and those engaging in a series of 'bolt-on' acquisitions to achieve a single strategic objective (where commercial sensitivity of information is seen to be of greater concern).

Auditability

39. Some users commented that although information about the subsequent performance of a business combination might be difficult to audit, it needs to be audited for users to gain confidence that the information is reliable. One user representative group commented that the audit profession adds value by opining on information such as this, even though this requires the exercise of professional judgement. However, a few users commented that they were not particularly concerned about the reliability of the information. In their view, users will use various sources in forming their own opinions on the reliability of information.

Other comments

40. A few users also made other comments on disclosures about the subsequent performance of business combinations. These comments included:

    (a) Some users said the information should be included in the notes to the financial statements, rather than in the management commentary. However, a

few users commented that they were not particularly concerned with the location of the information, as long as it is provided.

(b) A few users suggested the Board consider requiring enhanced disclosures for acquisitions of assets that do not meet the definition of a business combination. In their view, these transactions may be similar in nature to business combinations and could also involve large amounts of capital, but entities generally provide very little information about these transactions. On the other hand, one user suggested that the Board focus on business combinations because business combinations often involve much more capital than acquisitions of assets.

(c) One user representative group suggested the Board consider requiring entities to disclose the estimated incremental cost needed to achieve entities' acquisition targets.

Targeted improvements to acquisition date disclosures

Expected synergies

41. Almost all users supported the Board's preliminary view to develop proposals to require entities to disclose the amount of synergies expected from a business combination.

42. As was the case for their comments on disclosures for the subsequent performance of business combinations, while users agreed on the need for those disclosures, some users were concerned that the requirement could result in entities disclosing boiler plate information. Some users had concerns that preparers will use commercial sensitivity of information as an excuse not to provide information on synergies.

43. A few users stressed the need for quantitative, rather than just qualitative, information about synergies. These users said they expect an entity to have estimated the amount of synergies expected in a business combination because synergies are often marketed as the 'key selling point' of business combinations. In their view, an entity should also be required to disclose the subsequent achievement of expected synergies to help users hold management to account.

44. Some users commented that the Board should first define ‘synergy’, because it is currently not defined in IFRS Standards. Some users commented that they differentiate between revenue synergies and cost synergies. A few users commented that disclosure of expected revenue synergies could provide more useful information than information about cost synergies, but those amounts are generally less reliable. A few other users, however, commented that cost synergies generally tend to be less reliable than revenue synergies. One user commented that entities should also be required to disclose their expected tax synergies because business combinations are often driven by tax considerations.

Contribution of the acquired business

45. The Board’s preliminary view is to:

    (a) retain the existing requirement for an entity to provide information about the revenue and profit or loss of an acquired business for the period since the acquisition date and for the combined business as if the acquisition happened at the beginning of the reporting period (sometimes called pro forma information);

    (b) replace the term ‘profit or loss’ with ‘operating profit before deducting acquisition-related costs and integration costs’; and

    (c) require information about cash flows from operating activities.

46. The Board also sought views on whether it should provide additional guidance on how to prepare pro forma information or whether to require an entity to disclose how such information has been prepared.

47. Almost all users who commented on the question agreed with the Board’s view that the existing requirement for entities to disclose pro forma information should be retained.

48. Most users who commented on the disclosure of pro forma information agreed with the Board’s preliminary view that entities should provide information about pro forma operating profit. However, there are some conflicting views among users on whether such operating profit should be ‘before acquisition-related transaction and integration costs’ as proposed by the Board. Some users would like to understand the operating

profit before non-recurring items to compare the entity's financial performance before and after the business combination. Other users expressed concern that requiring entities to strip out acquisition-related costs, which are not well defined, could add complexity to the proposed requirement.

49. Many users commented that the Board should provide guidance on how an entity should prepare pro forma information to improve the comparability of such information. One user representative group, on the other hand, suggested that instead of the Board providing guidance, entities should be required to disclose how their pro forma financial information is prepared.

50. Some users said that they needed additional actual or pro forma financial information about business combinations, and for this information to be provided on a timelier basis. This additional information included:

    (a) the financial results of the acquired business for the past financial period(s);

    (b) financial information about the acquired business for the period between the end of its last financial period prior to being acquired and the acquisition date; and

    (c) pro forma financial information of the combined entity for the comparative period(s).

51. A few users commented on the Board's preliminary view to require entities to provide pro forma operating cash flows of the acquiree. These users were split on whether such information would be useful to users. One user commented that pro forma operating cash flows would be useful for users valuing entities using discounted cash flow models. However, one user representative group commented that the usefulness of the measure depends on the circumstances and rationale of the specific business combination, and that the measure might not be necessary for all business combinations.

Financing and pension liabilities

52. IFRS 3 requires an entity to disclose the amount recognised in a business combination for each major class of assets acquired and liabilities assumed (see IFRS 3 paragraph B64(i)). However, in applying that requirement, some entities do not separately

disclose their financing and defined benefit pension liabilities. Some users have said that they view those liabilities as part of the total capital employed in the business combination and would like entities to provide such information. In the Board's preliminary view, it should develop proposals to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities, and an entity should therefore disclose amounts recognised for these two types of liabilities.

53. A few users commented on the Board's preliminary view. All those users who commented agreed with the Board's preliminary view.

Subsequent accounting for goodwill

54. In the Discussion Paper, the Board explored the subsequent accounting for goodwill. In the Board's preliminary view, it:

    (a) cannot design an impairment test for cash-generating units (CGUs) containing goodwill that is significantly more effective at recognising impairment losses on goodwill on a timely basis at a reasonable cost (paragraphs 56–64);

    (b) should not reintroduce amortisation of goodwill (paragraphs 65–79);

    (c) should remove the existing requirement for entities to perform a quantitative impairment test every year for CGUs containing goodwill (paragraphs 83–87); and

    (d) should develop proposals to simplify how entities estimate value in use by (paragraphs 88–92):

        (i) removing the existing restriction that prohibits entities from including some cash flows when estimating value in use; and

        (ii) allowing entities to use post-tax cash flows and post-tax discount rates when estimating value in use.

55. Overall, users were divided on the Board's preliminary views relating to the subsequent accounting for goodwill. Most users in Canada, Japan and continental Europe preferred reintroducing amortisation of goodwill. On the other hand, most

users in Australia, the UK, the US and all international user representative groups preferred retaining the impairment-only model.

Effectiveness of the impairment test

56. During the PIR of IFRS 3, many stakeholders told the Board that impairment losses on CGUs containing goodwill are sometimes recognised too late—impairment losses are often recognised by the entity long after the events giving rise to the impairment occured.

57. Many users said that the impairment test in IAS 36 *Impairment of Assets* is not effective at recognising timely and adequate impairment losses on goodwill and that entities usually recognise impairment losses on CGUs containing goodwill after the market has reflected the losses suffered by entities. A few users commented that increases in goodwill balances reported by entities and the failure of some entities with large goodwill balances suggested that the impairment-only model did not work.

58. When users were asked how they identify impairment losses before an entity recognises them during outreach meetings, a few users commented that investors forecast an entity's cash flows using information from various sources using assumptions that are often less optimistic than those used by management. When the forecast suggests that the entity might be overvalued, the market value of entity decreases. This leads the market to conclude that the entity's goodwill has been impaired before the entity recognises the impairment loss.

59. A few users commented that the perceived delay in recognising impairment losses on goodwill is in part due to the inevitable delay in financial reporting, and therefore does not necessarily suggest that the impairment test is ineffective.

60. Some users also provided their views on the link between the Board's preliminary view on better disclosures for business combinations and the effectiveness of the impairment test. A few users said the new disclosures suggested by the Board would help resolve some of the issues with the impairment test. However, a few other users said that, in their view, the disclosures would not resolve the issues with the impairment test.

Suggestions to improve the impairment test

61. Some users agreed with the Board's preliminary view that it is not feasible to design an impairment test that is significantly more effective than the impairment test in IAS 36. In the view of most of these users, management over-optimism is the key reason for ineffectiveness in the impairment test. One user representative group, although agreeing with the Board's preliminary view, recommended that the Board conduct a full review of IAS 36.

62. A few users disagreed with the Board's preliminary view and suggested ways that, in their view, the Board could improve the effectiveness of the impairment test. These suggestions included:

    (a) implementing a broader test based on the market value of the acquired business; and

    (b) pursuing the headroom approach previously abandoned by the Board.

63. A few users who agreed with the Board's preliminary view also commented on how the level at which the impairment test is performed can be improved. The impairment test in IAS 36 requires entities to allocate goodwill to the lowest level within the entity that the goodwill is monitored for internal management purposes (that level should not be larger than an operating segment as defined by IFRS 8). A few users suggested the Board provide more guidance about the level at which goodwill is allocated. One user representative group suggested the Board require entities to allocate goodwill to a lower level for the impairment test. In their view, this would help reduce shielding and reduce management judgement in allocating goodwill. However, another user commented that goodwill should be allocated at the segment level which would enable users to examine the reasonableness of assumptions used in the impairment test against the entity's segment disclosures.

64. Some users suggested the Board consider requiring entities to provide better information about the management judgements applied and assumptions used in the impairment test that they perform. These suggestions included requiring an entity to disclose:

(a) a reconciliation of the recoverable amount of its CGUs and the market capitalisation of the entity;

(b) the amount by which fair value of the CGU exceeds its carrying amount;

(c) reasons for any significant change in assumptions, such as growth rates and discount rates, used in impairment tests;

(d) sensitivity analysis of the significant assumptions used in the impairment tests;

(e) how accurate management's past forecasts used in impairment tests were; and

(f) how management allocated or reallocated goodwill to CGUs.

Impairment-only vs amortisation of goodwill

65. Users have mixed views on whether to reintroduce amortisation of goodwill or to retain the impairment-only model. Proponents of both models commented that their preferred approach offers incremental information. Most users in favour of retaining the impairment-only model focused on the information provided as a reason to retain this model. For those in favour of reintroducing amortisation, many users said that goodwill is a wasting asset and amortisation could provide better information, and many users focused on practical reasons to support their view.

66. Some users commented that neither model provides much useful information. Some of these users supported retaining an impairment-only model because they do not see additional benefit in reintroducing amortisation, or that the impairment-only model provided marginally better information. Some other users in this category supported reintroducing amortisation because they view it as a cost-effective way to remove goodwill from the statement of financial position. One user commented that it is not concerned about how goodwill is accounted for, as long as the accounting treatment remained converged between IFRS Standards and US GAAP.

67. As was the case for all stakeholders (see **Agenda Paper 18F**), users did not identify new conceptual arguments in support of either model. However, some user representative groups commented that impairment losses on CGUs containing goodwill are not recognised on a timely basis. In their view, this suggested that the

impairment-only model had failed, and that this provided new evidence in support of reintroducing amortisation of goodwill.

68. The following section sets out users' views on this topic in more detail and is split into the following areas:

   (a) Arguments in favour of retaining the impairment-only model (paragraphs 69–72);

   (b) Arguments in favour of reintroducing amortisation of goodwill (paragraphs 73–75);

   (c) Maintaining convergence with US GAAP (paragraphs 76–78); and

   (d) Other comments (paragraph 79).

Arguments in favour of retaining the impairment-only model

69. Many users were in favour of retaining the impairment-only model and most commented that the existing model provides users with more useful information than amortisation of goodwill. They said that amortisation of goodwill, on the other hand, is arbitrary and has no information value. A few users said that goodwill is not, in their view, a wasting asset and also that information provided by the impairment-only model better holds management to account.

70. Most users in favour of retaining the impairment-only model focused on the information value that the model provides. These users commented that the impairment-only model provided more useful information than an amortisation model because:

   (a) Although users may add back impairment expense in their analysis, an impairment loss provides confirmatory information and is a signal to the market that management acknowledge that they made a poor decision and are prepared to move forward. Reintroducing amortisation for goodwill would reduce the likelihood that an entity recognises an impairment loss, and therefore would reduce any information value that the impairment test might offer.

(b) It is not possible to estimate the useful life of goodwill reliably. As a result, the amount of amortisation expense recognised is arbitrary. One user representative group commented that amortisation merely spreads an immeasurable cost over a highly subjective period. Another user representative group commented that amortisation expense is an administrative convenience for impairment expenses that entities failed to recognise on a timely basis.

(c) The impairment-only model keeps a historical record of an entity's capital allocation and allows for a more meaningful measure of return on capital employed, allowing users to better assess management's stewardship of the entity's resources.

71. When users were asked whether the information value provided by impairment losses depends on the age of the goodwill, some users in favour of retaining the impairment-only model commented that the information value it provides is greatest during the first few years, before the acquired entity is integrated into the acquirer's ongoing business operations.

72. One user commented that increases in entities' goodwill balances reflected changing macro-economic fundamentals since 2004, when the impairment-only model was first introduced. Therefore, in its view, the increase in goodwill balances under an impairment-only model should not be taken as evidence against the approach.

Arguments in favour of reintroducing amortisation of goodwill

73. Many users were in favour of reintroducing goodwill amortisation for both conceptual and practical reasons. Many users who supported reintroducing goodwill amortisation for conceptual reasons commented that:

(a) Goodwill is a wasting asset and an amortisation expense should be recognised over the period in which goodwill is expected to help the entity generate excess profit. One user suggested that an amortisation expense better holds management to account because an entity needs to generate additional return on investment to cover the periodic expense.

(b) Amortisation can provide useful information, specifically:

(i) Many users supporting amortisation suggested that management can make a reliable estimate of the useful life of goodwill and that this estimate could provide useful information. Most of these users also suggested putting a cap on the useful life of goodwill if the Board decides to reintroduce amortisation for goodwill.

(ii) One user said that an impairment loss in an amortisation model provides more useful information than it would in an impairment-only model. However, the user did not provide reason for this view.

(c) Some users said that impairment losses distort equity metrics because the impairment-only model inflates equity.

74. Many users in favour of amortisation focused on practical reasons, for example:

(a) Many of these users said that the impairment test is not working. Some of these users commented that an impairment-only model permits earnings management or that management could not be trusted to perform an objective impairment test.

(b) Some users said that amortisation would resolve the concerns that impairment losses on goodwill are not being recognised on a timely basis.

(c) Some users said that impairment losses are pro-cyclical and that reintroducing amortisation could help to reduce an entity's earnings volatility.

(d) A few users commented that delays in recognising impairment losses on CGUs containing goodwill cut the link between an entity's profit or loss and its cash flows, making profit or loss a poor indicator of the entity's future cash flows.

(e) One user commented that amortising goodwill would reduce an entity's distributable profit, and therefore the entity's ability to pay dividends. This would, in its view, help entities preserve cash and reduce the likelihood of them failing.

75. Other comments provided by users who supported reintroducing amortisation of goodwill included:

(a) Some users said that if amortisation of goodwill was reintroduced, the amortisation charge should be shown separately so that users could adjust the amortisation charge easily if they want to do so.

(b) One user representative group commented that although users would likely adjust for the amortisation charge, that should not be a reason for the Board not to reintroduce amortisation of goodwill. In its view, entities that grow through acquisitions follow a different strategy from those that grow organically, and the results reflect the different strategy that was taken. The financial performance reported by entities should reflect that difference and IFRS Standards should not seek to present the results for these two types of entities as comparable.

Maintaining convergence with US GAAP

76. The US Financial Accounting Standards Board (FASB) is currently undertaking a project that revisits the subsequent accounting for goodwill and identifiable intangible assets primarily for public entities applying US GAAP, including whether companies should be required to amortise their goodwill balances. The boards' standards on business combinations are largely converged and, in accordance with those standards, entities do not amortise goodwill. The Board asked stakeholders in its Discussion Paper if their responses to any of the Board's preliminary views depended on whether the subsequent accounting for goodwill remains consistent with US GAAP.

77. Most users who responded to this question commented that they would prefer the treatment for subsequent accounting of goodwill to remain consistent with US GAAP. However, most of these users said that their positions on the issue would not change, even if that would mean greater divergence between IFRS Standards and US GAAP, or that the Board should not make a change for the sake of convergence that would result in a dilution of the quality of IFRS Standards. In their view, it is more important for the Board to reach the 'correct' conclusion on the topic than to maintain convergence.

78. Some users who responded to the question commented that they were not concerned about maintaining convergence on the topic. In their view, neither the impairment-only model nor amortisation of goodwill provide useful information, and users could

easily make any necessary adjustments if the two sets of standards diverged on this issue.

Other comments

79. A few users suggested the Board consider requiring entities to disclose more information about their goodwill balances. This included providing a breakdown of an entity's goodwill balances by:

    (a) the business combinations from which they arise;

    (b) the segments to which they are allocated; and

    (c) the age of goodwill.

Potential alternative approaches

80. A few users suggested alternative approaches for the subsequent accounting of goodwill. These alternatives included:

    (a) One user suggested the Board consider requiring entities to recognise goodwill directly as an expense at acquisition. In its view, this would be a simple solution to solve the issue of entities having increasing goodwill balances, since neither amortisation nor impairment offer useful information. Another user commented that although he shared the view that neither approach offers useful information and appreciated the simplicity of directly writing off goodwill, he would not support such an approach because it would suppress merger and acquisition activities.

    (b) One user representative group suggested that the goodwill balance should remain on the acquirer's statement of financial position indefinitely, without amortisation or impairment, until such time as the entity discontinues or disposes of the original acquired business giving rise to the goodwill. In its view, this approach would best help hold management to account for its past investment decisions because it allows users to compute a return-on-investment amount with a consistent denominator and it would eliminate the

cost and complexity involved in performing the impairment test. It would also help to discourage management from overpaying for its investments.

(c) One user suggested the Board explore the possibility of componentising goodwill and applying either an impairment-only or amortisation approach depending on the nature of each component.

(d) One user suggested the Board consider the possibility of requiring entities to amortise goodwill through other comprehensive income, rather than through profit or loss.

Simplifying the impairment test

81. Most users who commented on this topic responded separately on each of the Board's preliminary views to simplify the impairment test. However, a few users, instead of commenting on each specific simplification, said that they disagreed with simplifications to the impairment test in general. In their view, the impairment test in IAS 36 is not robust, and any further simplification of the test by the Board would be a step in the wrong direction.

82. One user representative group said the Board should perform research to quantify the costs of performing the impairment test in order to justify the Board's preliminary views to simplify the test. In its view, market participants are able to identify impairment of entities' goodwill balances more accurately and earlier than management, even though these market participants have less information than management. This, in its view, suggests that performing the impairment test is neither costly nor complex, and that the Board should focus on tackling management over-optimism and implementation issues, rather than reducing costs of performing the test for preparers.

Removal of the annual quantitative test

83. Most users disagreed with the Board's preliminary view to remove the requirement for entities to perform mandatory annual quantitative impairment tests for CGUs containing goodwill, even when there is no indication of impairment. In their view:

(a) an indicator-based impairment test would worsen the ability of the impairment test to recognise impairment losses on goodwill on a timely basis;

(b) it is easier for auditors to challenge management over a mandatory annual quantitative impairment test and for regulators to enforce such a test;

(c) under an indicator-based approach, management would be more tempted to use over-optimistic assumptions in the impairment test so as not to recognise impairment losses;

(d) the cost of performing a mandatory annual quantitative impairment test is not significant;

(e) removing the mandatory annual quantitative impairment test could result in the loss of useful disclosures about assumptions (such as discount rates) used in impairment tests; and

(f) management might lose its expertise in performing the quantitative impairment test if the test is not required to be performed at least annually.

84. A few users supported the Board's preliminary view and commented that an indicator-based impairment test could help preparers save costs and should be robust enough if it is implemented strictly.

85. A few users commented that if the Board's preliminary view on disclosures of the subsequent performance of business combinations was implemented, a failure to meet management's targets could be an indicator of impairment that would trigger a quantitative impairment test for CGUs containing goodwill.

86. One user representative group suggested if the Board implemented an indicator-based impairment test it should require an entity to explain in the notes why it is more likely than not that the entity's goodwill is not impaired.

87. One user commented that he would support an indicator-based impairment test, but only if the Board decides to reintroduce amortisation of goodwill.

Simplifications to VIU estimates

88. Only some users commented on the Board's preliminary views to simplify how value in use (VIU) is estimated in an impairment test. Their views were mixed for both potential simplifications suggested by the Board.

89. A few users supported the Board's preliminary views because this could help reduce the cost and complexity of the test for preparers and make the test more understandable.

90. A few users disagreed with allowing entities to use post-tax cash flows and post-tax discount rates. In their view, income tax rates are applied to legal entities and do not exist for an asset or a CGU. Applying post-tax rates to an asset or a CGU could lead to inconsistent outcomes and practical difficulties.

91. A few users disagreed, or expressed concerns, with the Board's preliminary view to remove existing restrictions in IAS 36 prohibiting the inclusion of some cash flows (those arising from a future uncommitted restructuring, or from improving or enhancing an asset's performance) when estimating VIU. In their view, allowing the inclusion of such cash flows could further exacerbate the issue of management over-optimism that is impacting the robustness of the impairment test. One user representative group suggested that, to limit management over-optimism, the Board should consider only allowing the inclusion of restructuring or asset enhancement cash flows that were already planned when the business combination took place.

92. A few users also made further suggestions associated with the preliminary view to remove restrictions on including some cash flows when estimating VIU. These suggestions included:

    (a) applying a single approach to estimating the recoverable amount of a CGU, given the similarity between fair value and VIU if the Board's preliminary view is adopted;

    (b) disclosing the amount included in VIU estimates for cash flows from an uncommitted restructuring or asset enhancement or improvement; and

    (c) disclosing more information about the assumptions and judgements used when including in VIU estimates those cash flows that are currently restricted.

Other topics

Presenting total equity excluding goodwill

93. Most users disagreed with the Board’s preliminary view to require entities to present on the statement of financial position an amount representing total equity excluding goodwill. In their view, the requirement:
    - (a) brings no clear benefit because the amount can be computed easily with available information;
    - (b) could cast doubt on whether goodwill is an asset and may confuse inexperienced users; and
    - (c) is not necessary because requiring entities to present goodwill as a line item on the statement of financial position, as proposed in the Board’s Primary Financial Statements project, is sufficient to highlight the significance of goodwill to users.

94. Some users agreed with the Board’s preliminary view. In their view, the amount helps to highlight to users the quality of an entity’s capital and the risks associated with that capital.

95. Some users, including some who disagreed with the Board’s preliminary view, commented that they use net tangible asset measures when analysing companies. Many of these users commented that the measure is useful for entities where price to book ratio is an important valuation metric, such as financial institutions. However, those users who used net tangible asset measures applied slightly different forms of the metric in their analyses, which include:
    - (a) total equity excluding all intangible assets; and
    - (b) total equity excluding intangible assets an entity acquired in a business combination that the entity would not have recognised if those assets were developed internally.

Intangible assets

96. In the Board's preliminary view, it should not develop a proposal to allow some intangible assets acquired in a business combination to be included in goodwill.

97. Most users who commented on this preliminary view agreed with the Board. In their view:

    (a) separate recognition of acquired intangible assets reduces the amount of goodwill an entity recognises in a business combination, and thus the perceived issue of large goodwill balances; and

    (b) recognising some intangible assets acquired in a business combination, such as customer lists and patents, provides useful information that allows users to understand the nature of the transaction and what the acquirer is actually buying.

98. Some users disagreed with the Board's preliminary view. In their view:

    (a) some intangible assets acquired in a business combination should not be recognised as a separate asset because these assets cannot be sold separately;

    (b) many intangible assets separately recognised in a business combination are similar in nature to goodwill and should therefore be subsumed into goodwill; and

    (c) separate recognition of some acquired intangible assets does not provide useful information and impedes meaningful comparison between the financial performance of acquisitive and organically-growing entities.

99. Some users suggested the Board undertake a comprehensive project addressing intangible assets. These users acknowledged that such a project is beyond the scope of the Board's existing project on Goodwill and Impairment. In their view, the new project should seek to develop a principle-based standard that aligns the accounting treatment for intangible assets that are acquired in a business combination with intangible assets that are generated internally. This would create a level playing field for acquisitive and organically-growing entities.

100. One user, who supported retaining the impairment-only model for goodwill, commented that amortisation expenses are generally not useful and suggested the Board consider implementing an impairment-only model for intangible assets that are currently being amortised.

101. One user also suggested the Board require entities to identify and disclose those intangible assets that would require on-going maintenance.

Other comments by users

102. Some users suggested the Board explore other aspects of IFRS Standards not included in this project, including:

    (a) providing better information about fair value adjustments made to assets acquired and liabilities assumed in a business combination;

    (b) reviewing the initial and subsequent measurement requirements for contingent consideration and contingent liabilities;

    (c) providing better disclosures for internally generated intangible assets; and

    (d) reviewing the accounting option for how non-controlling interests should be initially measured.

Question for the Board
Does the Board have any comments or questions on the feedback discussed in this paper?