

STAFF PAPER

July 2021

IASB[®] meeting

Project	Goodwill and Impairment		
Paper topic	Cover paper		
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Introduction and purpose of this meeting

1. The International Accounting Standards Board (Board) published Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* in March 2020, with a comment letter deadline of 31 December 2020.
2. The purpose of this meeting is to provide the Board with staff analysis of the feedback on:
 - (a) location of the information resulting from, and practical challenges related to, the Board's preliminary views on improving disclosures;
 - (b) improving the effectiveness of the impairment test; and
 - (c) the subsequent accounting for goodwill, including whether to reintroduce amortisation of goodwill.
3. The Board will not be asked to make any decisions at this meeting.
4. We will discuss the following papers:
 - (a) Agenda Paper 18A: Disclosures about business combinations;
 - (b) Agenda Paper 18B: Effectiveness of impairment test—Background and feasibility of designing a different impairment test;
 - (c) Agenda Paper 18C: Effectiveness of impairment test—Improving the application of the impairment test; and
 - (d) Agenda Paper 18D: Subsequent accounting for goodwill

Feedback received

5. The Appendix summarises the Board’s preliminary views expressed in the Discussion Paper and feedback on those views. As the Board redeliberates those preliminary views, we will update the Appendix to also include the tentative decisions.
6. Agenda Papers 18A–18D to this meeting use the following terms to quantify the feedback of respondents:

Term	Description
Almost all	All except a very small minority
Most	A large majority, with more than a few exceptions
Many	A small majority or large minority
Some	A small minority, but more than a few
A few	A very small minority

Discussion Plan

7. As noted in [Agenda Paper 18G](#) to the Board’s May 2021 meeting, the staff thinks that the Board should prioritise making an initial decision on whether to reintroduce amortisation of goodwill. The staff plan to ask the Board to make this decision at its September 2021 meeting. Agenda Paper 18D to this meeting provides the Board with a foundation to help make that decision.
8. In addition, to assist the Board in making a decision on whether to reintroduce amortisation of goodwill and whether that decision depends on decisions on other topics in the project, Agenda Papers 18A–18C to this meeting provide staff’s analysis of:
 - (a) whether information on the subsequent performance of a business combination should be included in the financial statements and whether practical concerns raised by respondents regarding the disclosure of such information can be addressed.
 - (b) whether the Board should pursue respondents’ suggestions to design a different impairment test to the one included in IAS 36 *Impairment of Assets*

and, if not, whether the Board should pursue respondents' suggestions for improvements to the application of the impairment test in IAS 36.

9. The Board will discuss its Goodwill and Impairment project at a joint educational meeting with the US Financial Accounting Standards Board (FASB) in July. The purpose of that meeting is to provide an opportunity for FASB and IASB members to discuss:
 - (a) the objective and scope of their respective projects;
 - (b) similarities and differences in feedback on the FASB's Invitation to Comment *Identifiable Intangible Assets and Subsequent Accounting for Goodwill* and the IASB's Discussion Paper; and
 - (c) the tentative decisions the FASB have made to date.
10. The staff will update Agenda Papers 18A–18D to this meeting for comments received by the Board, the discussion between the IASB and the FASB at the joint educational meeting and any additional analysis the staff perform for the Board's September decision making meeting.

Appendix—Summary of proposals, feedback and tentative decisions

Topic	Summary of the Board's preliminary view	Summary of feedback	Tentative decisions
Objective and scope	The project's objective is to explore whether an entity can, at a reasonable cost, provide users of financial statements (users) with more useful information about the business combinations those entities make.	<p>See Agenda Paper 18A to the Board's March 2021 meeting</p> <p>Most respondents who commented on the project's objective agreed. However, some respondents, notably in Germany and Japan, disagreed.</p> <p>Many respondents commenting on the scope agreed with it. However, many respondents commenting on the project's scope said that they did not view the Board's preliminary views as a package of views with a unifying objective. Many of those respondents suggested considering disclosures separately from the subsequent accounting for goodwill.</p>	<p>June 2021</p> <p>The Board tentatively decided to leave the objective of the project unchanged from that described in the Discussion Paper and to make no changes to the project's scope at this stage.</p>
Disclosure on the subsequent performance of business combinations	<p>The Board's preliminary view is that it should develop proposals to:</p> <p>(a) amend IFRS 3 <i>Business Combinations</i> to replace the requirement to disclose the primary reasons for a business combination with a requirement for an entity to disclose the strategic rationale for undertaking a business combination and management's objectives for the business combination.</p> <p>(b) add a requirement for companies to disclose in the year in which a business combination occurs, the metrics that management will use to monitor whether its objectives are being met and in subsequent years the extent to which management's objectives are being met using those metrics.</p>	<p>See Agenda Paper 18C to the Board's April 2021 meeting</p> <p>Many respondents, including almost all users, agreed that an entity should be required to provide additional information about the subsequent performance of business combinations and with basing that information on what an entity's management review.</p> <p>However, many respondents, including many preparers, had concerns about the cost of providing this information.</p> <p>In addition, many respondents said information about the performance of business combinations should be provided in an entity's management commentary rather than financial statements.</p>	N/A

Topic	Summary of the Board's preliminary view	Summary of feedback	Tentative decisions
Improvements to existing IFRS 3 disclosure requirements	<p>The Board's preliminary view is that it should develop proposals to:</p> <ul style="list-style-type: none"> a) add additional disclosure objectives to IFRS 3; b) amend paragraph B64(e) of IFRS 3 to require a company to disclose the estimated amount or range of amounts of expected synergies arising from the business combination; c) amend paragraph B64(i) of IFRS 3 to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities; d) retain the requirement for an entity to disclose information about the contribution of the acquired business, with some amendments to the requirements. 	<p>See Agenda paper 18D to the Board's April 2021 meeting</p> <p>Of the Board's other preliminary views on disclosures, the requirement to disclose additional quantitative information about synergies attracted most comment. The Board received mixed feedback on this preliminary view.</p> <p>Respondents generally agreed with the Board's preliminary views that it should add new disclosure objectives and a requirement to disclose debt and pension liabilities obtained in a business combination.</p> <p>There was mixed feedback on the Board's preliminary views on information about the contribution of the acquired business.</p>	N/A
Effectiveness of the impairment test	<p>The Board's preliminary view is that it is not feasible to design a different impairment test for cash-generating units containing goodwill that is significantly more effective than the impairment test in IAS 36 at recognising impairment losses on goodwill on a timely basis and at a reasonable cost.</p>	<p>See Agenda Paper 18B to the Board's May 2021 meeting</p> <p>Most respondents agreed with the Board's preliminary view that it is not feasible to design a different impairment test that is significantly more effective than the impairment test of cash-generating units containing goodwill in IAS 36 at a reasonable cost.</p> <p>However, many of those respondents suggested how the Board could improve the application of the impairment test in IAS 36. In particular, many respondents suggested ideas for additional disclosure requirements to combat management over-optimism and suggested the Board develop additional guidance to improve the level at which goodwill is allocated to cash-generating units to reduce the 'shielding' effect described in the Discussion Paper.</p>	N/A

Topic	Summary of the Board's preliminary view	Summary of feedback	Tentative decisions
Subsequent accounting for goodwill	By a small majority (eight out of 14 Board members), the Board reached a preliminary view that the Board should retain the impairment-only model rather than reintroduce amortisation of goodwill.	See Agenda Paper 18C to the Board's May 2021 meeting Respondents remain divided on whether the Board should reintroduce amortisation of goodwill. Many respondents agreed with the Board's preliminary view to retain the impairment-only approach but many other respondents disagreed with the Board's preliminary view and instead advocated reintroducing amortisation of goodwill.	N/A
Simplifying the impairment test	The Board's preliminary view is that it should develop proposals to: <ul style="list-style-type: none"> • reduce the cost and complexity of performing the impairment test by providing entities with relief from having to perform an annual quantitative impairment test for cash-generating units containing goodwill if there is no indication that an impairment may have occurred; and • reduce cost and complexity, and to provide more useful and understandable information by simplifying the requirements for estimating value in use. 	See Agenda Paper 18D to the Board's May 2021 meeting Most respondents, including some preparers, did not support the Board's preliminary view that it should implement an indicator-based impairment test for goodwill. However, respondents generally welcomed the Board's preliminary views on simplifying and improving how value in use should be estimated.	N/A
Presenting total equity excluding goodwill	In the Board's preliminary view, it should develop a proposal to require an entity to present on its statement of financial position the amount of total equity excluding goodwill. This amount would likely be presented as a free-standing item, and not as a subtotal, or line item, within the structure of the statement of financial position.	See Agenda Paper 18E to the Board's May 2021 meeting Almost all respondents disagreed with the Board's preliminary view that it should require an entity to present in its statement of financial position an amount representing total equity excluding goodwill. In their view, users can easily calculate that amount and presenting that amount could cast doubt on whether goodwill is an asset.	N/A
Intangible assets acquired in a business combinations	The Board's preliminary view is that it should not change the recognition criteria for identifiable intangible assets that are acquired in a business combination	See Agenda Paper 18E to the Board's May 2021 meeting Most respondents who commented on the question, including many users, agreed with the Board's preliminary view not to develop such a proposal. In their view, goodwill and other intangible assets acquired in a business combination are different in nature and recognising these	N/A

Topic	Summary of the Board's preliminary view	Summary of feedback	Tentative decisions
		assets separately provides users with better and more useful information.	

A1. In addition, the staff provided the Board with a summary of feedback from users ([Agenda Paper 18B](#) to the Board's April 2021 meeting) and a summary of academic evidence ([Agenda Paper 18F](#) to the Board's May 2021 meeting).