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Project	**Goodwill and Impairment**	
Paper topic	Accounting for goodwill—Simplifying the impairment test	

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Purpose and structure of this paper

1. This paper provides the International Accounting Standards Board (Board) with a summary of the feedback received on its preliminary views expressed in Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* on how to simplify the impairment test of cash-generating units (CGUs) containing goodwill without making it significantly less robust. Some of the changes would also make value in use (VIU) more understandable.
2. This paper does not ask the Board for any decisions.
3. The paper contains:
   (a) key messages (paragraph 4–8);
   (b) summary of the Board’s preliminary views (paragraphs 9–13);
   (c) questions asked (paragraphs 14–16);
   (d) feedback received (paragraphs 17–68), including:
      (i) removing the annual impairment test (paragraphs 19–42);
      (ii) removing restrictions on including some cash flows in estimations of the VIU of a CGU (paragraphs 43–51);
      (iii) allowing entities to use post-tax cash flows and post-tax discount rates when estimating VIU (paragraphs 52–54);

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(iv) other simplifications of the impairment test (paragraphs 55–68); and

(e) Question for the Board.

Key messages

4. Most respondents, including some preparers, disagreed with the Board's preliminary view to remove from IAS 36 *Impairment of Assets* the requirement for an entity to perform a mandatory annual quantitative impairment test of CGUs containing goodwill. Many of them expressed concern that the cost savings would not outweigh the reduction of the effectiveness and robustness of the test. However, many of those who disagreed also said that the cost-benefit could be re-evaluated if the Board decides to amortise goodwill.

5. Many respondents agreed with the Board's preliminary views that it should develop proposals to:

   (a) allow an entity to use post-tax cash flows and post-tax discount rates in estimating VIU; and

   (b) remove from IAS 36 restrictions on including in estimates of VIU cash flows arising from a future restructuring to which an entity is not yet committed or from improving or enhancing an asset's performance.

6. On the other hand, some respondents disagreed with the Board on removing restrictions on including some cash flows in estimations of VIU. In their view, allowing the inclusion of those cash flows could exacerbate management over-optimism in impairment tests.

7. A few respondents opposed any simplifications of the current impairment test because 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.

8. Finally, many respondents agreed with the Board's preliminary views that it should not develop the following simplifications:

(a) adding more guidance on the difference between entity-specific inputs used in VIU and market-participant inputs used in fair value less costs of disposal (FVLCD);

(b) mandating only one method for estimating the recoverable amount of a CGU;

(c) allowing an entity to test goodwill at the entity level or at the level of reportable segments; and

(d) adding guidance on identifying CGUs and on allocating goodwill to CGUs, although many other respondents suggested the Board should consider this to improve the effectiveness of the impairment test (see Agenda Paper 18B).

Summary of the Board's preliminary views

9. During the Post-implementation Review of IFRS 3 *Business Combinations* some stakeholders expressed the view that the impairment test is complex, time-consuming, expensive and involves significant judgements. Challenges identified by stakeholders include:

(a) testing goodwill (and other intangible assets with indefinite useful lives) for impairment annually does not make the test more effective. Stakeholders observed that the annual impairment test of goodwill is time-consuming and the benefits do not always justify its costs.

(b) difficulties in determining a pre-tax discount rate for estimating VIU. Stakeholders said that pre-tax discount rates are not observable, they are hard to understand and they do not provide useful information because asset valuations are generally performed on a post-tax basis. This means that pre-tax discount rates are generally calculated only to satisfy the requirements of IAS 36.

(c) restrictions in IAS 36 on the cash flows used for estimating VIU. Stakeholders observed that the exclusion of cash flows expected to arise from a future restructuring or enhancement is a source of additional costs

for an entity, it can cause complexity and it requires significant judgement. Management has to adjust its financial budgets or forecasts in order to perform the impairment test and distinguishing maintenance capital expenditure from expansionary capital expenditure can be challenging.

(d) difficulties (and subjectivity involved) in allocating goodwill to CGUs for impairment testing purposes and reallocating that goodwill when restructuring occurs. Stakeholders said that allocating goodwill to CGUs is one of the main challenges of the impairment test.

10. The Board's preliminary view is to address some of these concerns by developing proposals to remove from IAS 36:

(a) the requirement for an entity to perform a quantitative annual impairment test for CGUs containing goodwill if there is no indication that the CGU may be impaired. The Board thinks that this proposal would reduce costs for entities, without reducing the robustness of the test. In the Board's view it is unlikely that an annual quantitative impairment test would identify a material impairment where no indication of impairment existed.

(b) the restrictions on cash flows associated with future restructurings or enhancements. The Board expects that this proposal would reduce cost and complexity for entities and would make the test easier to understand.

(c) the explicit requirement to use pre-tax discount rates and pre-tax cash flows in estimating VIU. Instead, an entity would be required to use internally consistent assumptions for cash flows and discount rates regardless of whether VIU is estimated on a pre-tax or post-tax basis.

11. The proposals in (b) and (c) would also apply to all assets and CGUs within the scope of IAS 36.

12. The Board also considered whether to provide the following simplifications and guidance for the impairment test:

(a) adding more guidance on the difference between entity-specific inputs used in VIU and market-participant inputs used in FVLCD;

(b) mandating a single method (either VIU or FVLCD) for estimating the recoverable amount of an asset;

(c) allowing entities to test goodwill at the entity level or at the level of reportable segments rather than requiring entities to allocate goodwill to CGUs that represent the lowest level at which goodwill is monitored for internal management purposes; and

(d) providing more guidance on identifying CGUs and on allocating goodwill to CGUs.

13. However, the Board decided not to develop proposals for any of those potential simplifications because it considered that existing requirements are sufficient, it would be difficult to provide guidance applicable to all entities or the proposals may reduce the effectiveness of the impairment test.

Questions asked

14. Question 9 in the Discussion Paper asked:

> Paragraphs 4.32–4.34 [of the Discussion Paper] summarise the Board's preliminary view that it should develop proposals to remove the requirement to perform a quantitative impairment test every year. A quantitative impairment test would not be required unless there is an indication of impairment. The same proposal would also be developed for intangible assets with indefinite useful lives and intangible assets not yet available for use.
>
> (a) Should the Board develop such proposals? Why or why not?
>
> (b) Would such proposals reduce costs significantly (see paragraphs 4.14–4.21 [of the Discussion Paper])? If so, please provide examples of the nature and extent of any cost reduction. If the proposals would not reduce costs significantly, please explain why not.

> (c) In your view, would the proposals make the impairment test significantly less robust (see paragraphs 4.22–4.23 [of the Discussion Paper])? Why or why not?

15. Question 10 in the Discussion Paper asked:

> The Board's preliminary view is that it should develop proposals:
>
> (a) to remove the restriction in IAS 36 that prohibits companies from including some cash flows in estimating value in use—cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance (see paragraphs 4.35–4.42 [of the Discussion Paper]); and
>
> (b) to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use (see paragraphs 4.46–4.52 [of the Discussion Paper]).
>
> The Board expects that these changes would reduce the cost and complexity of impairment tests and provide more useful and understandable information.
>
> (a) Should the Board develop such proposals? Why or why not?
>
> (b) Should the Board propose requiring discipline, in addition to the discipline already required by IAS 36, in estimating the cash flows that are the subject of this question? Why or why not? If so, please describe how this should be done and state whether this should apply to all cash flows included in estimates of value in use, and why.

16. Question 11 in the Discussion Paper asked:

> Paragraph 4.56 [of the Discussion Paper] summarises the Board's preliminary view that it should not further simplify the impairment test.
>
> (a) Should the Board develop any of the simplifications summarised in paragraph 4.55 [of the Discussion

Paper]? If so, which simplifications and why? If not, why not?

(b) Can you suggest other ways of reducing the cost and complexity of performing the impairment test for goodwill, without making the information provided less useful to investors?

Feedback received

17. 127 comments letters provided the Board with feedback on removing the annual impairment test, 122 on removing restrictions in VIU estimation and 110 on proposed simplifications of impairment test. In addition, the staff received feedback in outreach meetings with stakeholders.

18. The analysis in this section is structured as follows:

    (a) Question 9—removing the annual impairment test (paragraphs 19–42);

    (b) Question 10—removing restrictions that prohibit entities from including some cash flows in estimating VIU (paragraphs 43–51);

    (c) Question 10—allowing entities to use post-tax cash flows and post-tax discount rates in estimating VIU (paragraphs 52–54); and

    (d) Question 11—other simplifications that the Board should consider (paragraphs 55–68).

Removing the annual impairment test

19. Most respondents commented on the Board's preliminary view to develop a proposal to remove from IAS 36 the requirement for an entity to perform a mandatory annual quantitative impairment test of CGUs containing goodwill. Most of these respondents disagreed with the Board's preliminary view. However, some of these respondents, including most preparers and some accounting bodies, agreed with the Board's proposal.

20. Among those who agreed with the Board's proposal on removing the requirement for an annual impairment test many respondents said that:

(a) the proposal would reduce costs associated with performing the impairment test without reducing its robustness. An analysis of triggers of impairment would be less costly than performing an annual quantitative impairment test, which often involves paying a third-party valuation firm to determine the recoverable amount of the CGU.

(b) the benefits of performing an impairment test when there are no indications of impairment are minimal. Performance analysis to identify triggers for impairment would not reduce the robustness of the test.

21. Many respondents across all jurisdictions disagreed with the Board's preliminary view to remove from IAS 36 the requirement for an entity to perform a quantitative impairment test annually. Those respondents expressed concern that removing the requirement to perform a quantitative impairment test annually would reduce the effectiveness and robustness of the impairment test.

22. Many respondents who disagreed with the Board's preliminary view said that their response to this preliminary view depends on the Board's decision on whether to reintroduce amortisation of goodwill. They said that an indicator-only approach to testing CGUs containing goodwill for impairment should be introduced only if amortisation of goodwill is reintroduced. Respondents said:

(a) it would be counterintuitive to remove the annual test when many stakeholders said that impairment losses of goodwill are recognised too late, long after the events that caused the impairment loss.

(b) amortisation would reduce pressure on the impairment test. An annual amortisation charge would reduce the carrying amount of goodwill which would over time reduce the magnitude of any potential impairment loss and, therefore, would make it less critical that CGUs containing goodwill should be subject to annual quantitative impairment testing.

(c) an annual quantitative impairment test is one of the pillars of the robust impairment test considered by the Board as being necessary for the adoption of the impairment-only model when IFRS 3 was issued.

23. Respondents commented on the removal of the mandatory annual quantitative impairment test and its effect on:

(a) the effectiveness of the impairment test (paragraphs 25–28);

(b) the costs incurred by an entity (paragraphs 29–30);

(c) indicators of impairment (paragraphs 31–35);

(d) other intangible assets (paragraphs 36–37); and

(e) disclosures (paragraphs 38–39).

24. Some respondents suggested alternatives to removing the annual quantitative impairment test (paragraphs 40–42).

Effectiveness of the impairment test

25. A few respondents said that the relief from the annual quantitative test would not reduce the robustness of the impairment test of CGUs containing goodwill. Academic evidence from the US also shows that entities performing a qualitative assessment ('Step Zero') exhibit no reduction in the timeliness of impairment loss recognition, suggesting that removing the mandatory quantitative test does not affect the robustness of the test (see Agenda Paper 18F).

26. On the other hand, some respondents, mainly accounting bodies, accounting firms and national standard-setters, said that the proposal would result in a less effective and robust impairment test. This was because:

(a) it would increase the level of subjectivity and management discretion in recognising impairments of goodwill, exacerbating the problem of management over-optimism in the impairment test, because:

(i) assessing the existence of indicators of impairment can be more judgemental than measuring the recoverable amount;

(ii) there can be situations where it might be difficult to determine whether there has been a trigger, for example if the operating performance is deteriorating slowly; and

(b) the impairment test is a complex process and management's expertise would decline if it were not performed regularly.

27. Many regulators and national standard-setters, said that the simplification would make it more difficult for auditors and regulators to enforce the impairment test, because:

(a) there might be significant judgement in assessing whether there has been an indication of impairment, for example when performance deteriorates gradually.

(b) it would create an additional step requiring auditors and regulators to challenge first the qualitative test and secondly the quantitative test.

(c) if the quantitative test is not performed annually, auditors and regulators would not have comparative information on impairment tests prepared in previous years (for example about previous assumptions and estimates). This may undermine the ability of auditors and regulators to perform back-testing and assess the reasonableness of assumptions used.

28. Some respondents, including some preparers, commented on the impact of the proposal on the governance and the internal controls of an entity:

(a) some accounting firms said that the removal of the requirement to perform an impairment test regularly would also reduce the quality of the processes put in place and the robustness of the controls, for example around the data and inputs used, because the processes and controls would be seldom utilised.

(b) some respondents said that that an annual impairment test provides a good governance mechanism because it requires an entity to assess the performance of an acquisition and, eventually, it contributes to promoting good stewardship and allows users of financial statements to hold management to account for their decisions. A few fieldwork participants also said that the annual impairment test is used to monitor the performance of business combinations (see Agenda Paper 18C to the Board's April 2021 meeting).

Extent of any cost reduction

29. Many respondents commented on the cost reduction of an indicator-only approach. Some respondents agreed that performing a qualitative assessment of indicators of impairment would be less costly than an annual quantitative impairment test as preparers would not be required to estimate future cash flows for each CGU.

30. Some other respondents said that the cost reduction would be relatively marginal, because:

    (a) either preparers would be likely to continue to perform the test annually, even if not required by the accounting standards, as part of an internal governance process or they would still need to assess whether a quantitative test is required. A comprehensive assessment of qualitative indicators and the proper documentation would be time consuming and costly.

    (b) inputs used in VIU estimations are often used for other internal purposes. For example, cash flows projections are based on budgets used by management to run the business and not prepared solely for the purpose of performing the impairment test.

    (c) once the systems and processes for a quantitative test have been initially implemented, the costs of performing the test regularly are not excessive compared to the potential additional costs of setting up an impairment test model when it has not been prepared for a long time.

Improving the indicators of impairment

31. Many respondents, including some accounting firms and national standard-setters, said that the Board's preliminary view would increase the pressure on the impairment indicators and suggested that the Board should carefully reconsider the list of impairment indicators in paragraph 12 of IAS 36. Some respondents said that including a robust list of indicators of impairment may help to reduce the risk of management over-optimism in the impairment indicator assessment.

32. Such guidance could include a list of new indicators that specifically apply to goodwill or a list of indicators that should exist to presume goodwill is not impaired. A few respondents also suggested giving more prominence to internal indicators over external indicators.

33. As noted in paragraph 125 of Agenda Paper 18C to the Board's April 2021 meeting, some respondents said that the Board's preliminary views on the disclosure of information about the performance of business combinations could be used as indicators of impairment. Those respondents said this might result in more timely impairments and could mitigate any concerns on the robustness of the test. A preparer

group was more cautious and observed such a link could wrongly lead users of financial statements to believe that an impairment loss should exist when an entity's objectives are not achieved.

34. Some regulators suggested that an indicator of impairment would exist when goodwill relates to a contingent asset for which the contingency is subsequently resolved or when it has arisen on recognition of deferred tax liabilities and those liabilities are subsequently derecognised.

35. Finally, a few regulators added that, if the Board decides to remove the requirement for an annual impairment test, it should clarify the language in paragraph 9 of IAS 36. They said that this paragraph results in diversity in practice where some entities evaluate triggers only at the reporting date and others evaluate them on an ongoing basis.

Other intangible assets

36. Some respondents also commented on the Board's preliminary view that the removal of the annual impairment test should also be proposed for intangible assets with indefinite useful lives and intangible assets not yet available for use. Many of them agreed with the Board's proposal saying that it would:

    (a) result in a consistent impairment model; and

    (b) reduce opportunities for accounting arbitrage.

37. A few who commented on the impairment test for intangible assets disagreed with the Board's proposal saying that an annual impairment test would improve the reliability of the amounts presented because entities would be encouraged to closely monitor these assets.

Disclosures

38. Many respondents commented on the possible effects of the Board's preliminary views on the information provided to users of financial statements. Some respondents said that, under an indicator-only approach, information that users of financial statements may find useful to understand whether an impairment could occur in the future would be lost. This is because the disclosures that accompany the quantitative annual impairment test, specified in paragraph 134 of IAS 36, might not be provided

when the quantitative test is not performed. In particular, disclosures that accompany the impairment test that provide insight into management's outlook for the business (for example information about key assumptions, growth rate and the discount rate used) would no longer be disclosed annually.

39. Some respondents, mainly national standard-setters, suggested that if the Board proceeds with the proposal then it should require an entity to disclose whether or not they have performed a quantitative test and, if not, why they concluded that there was no indication of impairment. However, some of these respondents said that such a requirement might limit any cost reduction obtained from removing the requirement for an annual quantitative impairment test.

Alternative options

40. Some respondents, mainly accounting firms and national standard-setters, suggested that instead of removing the requirement to perform a quantitative impairment test annually, the Board should explore whether the existing relief from performing an annual quantitative impairment test in paragraph 99 of IAS 36 could be made easier to apply. Some of these respondents said that this paragraph is used infrequently in practice because of the perceived lack of clarity on some of the criteria that must be met. Respondents said it can be difficult to provide sufficient evidence to support its use to auditors and regulators. Several respondents said that clarifying the meaning of terms such as 'substantial margin' and 'remote' could increase the frequency at which this paragraph is applied.

41. A few respondents also suggested reducing the frequency of a mandatory quantitative impairment test of CGUs containing goodwill instead of moving to a purely indicator-based approach (for example, mandating a quantitative impairment test every two or three years, with an indicator-based approach in the intervening years). Those respondents said that it would result in cost reductions for preparers but maintain a more rigorous testing approach than the indicator-based approach described in the Discussion Paper.

42. A few respondents suggested making performing an annual qualitative test or an annual quantitative test an accounting policy choice. This was because different entities may have different opinions on whether an annual quantitative impairment

test provides better governance or whether annual qualitative assessments of indicators of impairment is more cost efficient.

Removing restrictions on including some cash flows in estimations of VIU

43. The Board's preliminary view is that it should develop a proposal to remove from IAS 36 the restriction on including in estimates of VIU cash flows arising from a future restructuring to which an entity is not yet committed or from improving or enhancing an asset's performance.

44. Most respondents across all jurisdictions commented on the Board's preliminary view:
    (a) many of the respondents agreed with removing restrictions on including some cash flows in estimations of VIU (paragraph 45);
    (b) some respondents, including some regulators and a few accounting firms, disagreed with the Board's preliminary view (paragraph 46);
    (c) many also commented on whether it is necessary to require discipline in addition to that already required by IAS 36 for an entity to include these cash flows when estimating VIU (paragraphs 47–51).

45. Those who agreed with the Board said that:
    (a) the proposal would align information used in the impairment test with information approved and used internally, without the need of hypothetical adjustments solely for the purpose of the impairment test; and
    (b) the simplification would reduce the cost and complexity of the impairment test without compromising significantly the decision usefulness of the information provided because:
        (i) there are no conceptual reasons for excluding some cash flows from VIU and not from FVLCD; and
        (ii) the cash flows would better reflect the expected performance of the asset or cash-generating unit.

46. Those who disagreed with the Board's proposal of removing restrictions from including some cash flows in estimations of VIU said that the proposal would:

(a) reduce the robustness of the impairment test and make it more difficult to challenge for auditors and regulators because of the significant level of judgement involved in assessing whether assumptions are reasonable and supportable;

(b) provide limited reduction in costs because of the burden of gathering information to prove that the assumptions are reasonable and supportable;

(c) further delay the recognition of impairment losses because it would increase the risk that management may use inputs that are too optimistic; and

(d) lack a conceptual basis for the change because cash flows from future restructurings or from enhancements to an asset's performance are not cash flows from the asset in its current condition.

Need for further discipline on including some cash flows

47. Many respondents commented on whether there is a need for further discipline to include cash flows from a future restructuring to which an entity is not yet committed or from improving or enhancing an asset's performance in estimating VIU.

48. Many respondents, most of which are preparers, that agreed with the Board's preliminary view to remove restrictions on including some cash flows in estimations of VIU, said that it is not necessary to require further discipline to include those cashflows because IAS 36 already requires an entity to use reasonable and supportable assumptions.

49. On the other hand, many other respondents, mainly regulators, accounting firms and national standard-setters, although agreeing with the Board's preliminary view for the reasons indicated in paragraph 45, expressed concern that it would further delay recognising impairment losses due to too optimistic cash flow forecasts. They added that assessing whether cash flows from future restructurings or asset enhancements are reasonable and supportable could be difficult and judgemental.

50. To ensure that the impairment test remains robust, these respondents suggested that the Board should develop requirements on when cash flows arising from a restructuring or enhancing the asset's performance can be included in estimations of VIU. For example, some suggested that the Board should:

(a) require these cash flows to be included only if authorised by management. Those respondents said that this would help ensure that the amount of future cash flows is estimated reliably.

(b) develop guidance on the evidence that might be needed to satisfy the requirement for these future cash flow estimates to be reasonable and supportable.

(c) require additional disclosure regarding management's assumptions about future cash flows from future uncommitted restructurings or asset enhancements.

(d) set a probability threshold to determine when these cash flows can be included.

51. A European standard-setter also said that the Board should carefully define the scope of cash flows that can be included in estimating VIU (for example excluding those that relate to future business combinations) and consider the interplay with the legal provisions existing in some jurisdictions that require an entity to inform employees before making public a restructuring plan.

Allowing entities to use post-tax cash flows and post-tax discount rates

52. The Board's preliminary view is to remove the restriction in IAS 36 that requires an entity to estimate VIU using pre-tax cash flows and discount rates. Instead, an entity would be required to use internally consistent assumptions for cash flows and discount rates regardless of whether VIU is estimated on a pre-tax or post-tax basis.

53. Almost all respondents across all jurisdictions and stakeholder types, agreed with the Board's preliminary view. Those who agreed generally concurred with the Board's analysis that a pre-tax discount rate is not observable and does not provide useful information because it is generally not used for valuation purposes. They said that:

(a) the proposal would align IAS 36 with commonly used valuation methodologies.

(b) it would reduce the costs and complexity of the impairment test without compromising the decision usefulness of the information provided.

(c) in practice, entities already use post-tax cash flows and post-tax discount rates which are mechanically converted to pre-tax rates solely to meet disclosure requirements of IAS 36.

(d) if implemented, the proposal would make it easier for auditors to challenge impairment tests. Post-tax discount rates are more reliable because they are observable and do not require additional calculations.

54. Some accounting firms and national standard-setters were concerned about application issues that could arise in using post-tax discount rates and post-tax cash flows. Many of these respondents suggested that the Board provide further guidance and illustrative examples to ensure consistent treatment of tax cash flows and temporary differences, carried-forward losses and the associated deferred tax amounts. Some of these respondents also observed that the issue may be more relevant in those situations where goodwill increases as a result of measurement of deferred taxes (technical goodwill), as described in paragraph 37 of Agenda Paper 18E to this meeting.

Other simplifications to the impairment test

55. Many respondents commented on other possible simplifications to the impairment test discussed in the Discussion Paper, including:

(a) adding more guidance on the difference between entity-specific inputs used in VIU and market-participant inputs used in FVLCD (paragraphs 57–59);

(b) mandating a single method for estimating the recoverable amount of an asset or requiring an entity to select the method that reflects the way the entity expects to recover an asset (paragraphs 60–62);

(c) changing the level at which goodwill is allocated to CGUs (paragraphs 63–64); and

(d) other simplifications (paragraphs 65–68).

56. Many respondents also suggested either providing additional guidance on identifying CGUs and on allocating goodwill to CGUs or amending IFRS Standards to require an entity to allocate goodwill to CGUs below the segment level as a way to improve the

effectiveness of the impairment test. Agenda Paper 18B to this meeting includes a summary of feedback in this area.

Difference between VIU and FVLCD

57. Some respondents, including some accounting firms and a few accounting bodies and regulators, said that the Board should provide additional guidance on the difference between entity-specific inputs used in VIU and market-participant inputs used in FVLCD. They said that differentiating assumptions and inputs used in the two models is currently a source of significant challenge and that simplifying the VIU estimation as suggested in paragraphs 43–54 would further blur the distinction between the two methods.

58. A few respondents suggested that the additional guidance should:

    (a) clarify how to adjust inputs to reflect a market participant's perspective;

    (b) further elaborate the example of factors that are not available to market participants listed in paragraph 53A of IAS 36.

59. However, many respondents across all jurisdictions, including preparers and national standard-setters, agreed with the Board's conclusion that the guidance in IAS 36 and IFRS 13 *Fair Value Measurement* is sufficient.

A single method for measuring a CGU's recoverable amount

60. Some respondents, including some accounting firms and national standard-setters, said that the Board should mandate only one method for estimating the recoverable amount of an asset. Most of these respondents did not express any preference for which method should be adopted, however:

    (a) a few respondents suggested the Board prescribe the use of FVLCD because, in their view, the simplifications in VIU estimation suggested in paragraphs 43–54, which bring the estimation of VIU closer to FVLCD, are arguments to adopt FVLCD, and the reasons the Board gave in the Discussion Paper for retaining the two methods for measuring recoverable amount were not, in their view, compelling; and

(b) a preparer group said that, if only one method for measuring the recoverable amount were to be retained, VIU should be used because in their view, it better reflects management's expectations for the CGU.

61. Many respondents, mainly preparers and national standard-setters, agreed with the Board's preliminary view that it should not develop this simplification because:

(a) it would not result in a significant simplification as entities are not required to determine both measures of recoverable amount;

(b) determining the recoverable amount as the higher of the VIU and FVLCD better reflects the economics because it considers the different options available to an entity to recover the value of an asset (for example, FVLCD may not reflect the value derived from synergies available to the entity that would be captured by VIU);

(c) valuation inputs for determining FVLCD may not always be observable; and

(d) FVLCD can be used to test the reasonableness of the recoverable amount determined using the VIU method.

62. Only a few respondents commented on requiring an entity to select the method that reflects the way it expects to recover an asset. Under this approach, for example, FVLCD could be used only for those assets expected to be disposed in a determined time frame. A few national standard-setters supported this approach, however a few other respondents said that it may be difficult to operationalise relevant criteria in cases where the intent is to dispose of the asset but the criteria in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are not met.

Allocation of goodwill for impairment testing at a higher level

63. Many respondents provided feedback on allowing an entity to allocate goodwill at the entity level or at the level of reportable segments for the purpose of the impairment test. Most respondents who commented on this question agreed with the Board's preliminary view that testing goodwill at a higher level could delay further the recognition of impairment losses on goodwill by increasing the effect of shielding.

64. A few preparers supported this simplification because entities generally manage the business by reportable segment rather than by CGU. This means that budgets/forecasts are prepared for each CGU only for the purpose of the impairment test and therefore this simplification could significantly reduce the burden for preparers.

Other simplifications

65. Some respondents also suggested further simplifications to the impairment test of CGUs containing goodwill. Some of these suggestions, for example the reversal of goodwill impairments or using scenario analysis to include less optimistic scenarios in cash flow estimates, are discussed in Agenda Paper 18B to this meeting.

66. Other simplifications suggested by respondents typically address:

    (a) leasing liabilities and related cash-flows (paragraph 67); and

    (b) additional guidance on how to perform the test (paragraph 68).

Leasing liabilities and related cash-flows

67. A few respondents, mainly national standard-setters, said that IAS 36 is not clear about how leases should be incorporated in how an entity estimates VIU. Specifically, these respondents said that, with the application of IFRS 16 *Leases*, diversity in practice arose on the adjustments to cash flow projections needed to exclude the portion that relates to financing activities, including splitting cash flows that are recognised as leasing liabilities applying IFRS 16 and those that are not. Agenda Paper 18E to this meeting discusses feedback in this area further.

Additional guidance on how to perform the impairment test

68. Some respondents said that additional guidance on how to perform the impairment test would help reduce its cost and complexity. Topics respondents said they need guidance on include:

    (a) Financial services sector—a few respondents said that the existing requirements are written for non-financial services businesses and, therefore, entities and auditors face additional costs and complexity when they apply IAS 36 in the financial services sector.

(b) Control premium—a few respondents said that the Board could clarify whether the FVLCD of a listed CGU should also reflect a control premium.

(c) VIU estimated in foreign currency—an accounting firm suggested that the Board permit an entity to estimate future cash flows in a currency different from the one in which those cash flows are generated. They said this would reduce complexity if an entity has assets generating cash flows in many different currencies, especially if the cash flows generated by an asset are in a hyperinflationary economy.

(d) Accounting for non-controlling interests—a few accounting firms and national standard-setters said that application challenges may arise from the effect of subsequent transactions with non-controlling shareholders on partial goodwill (whereby an entity has opted not to recognise the share of goodwill attributable to the non-controlling interest).

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