IFRS

STAFF PAPER

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IASB® meeting

Project	**Goodwill and Impairment**		
Paper topic	Plan for redeliberations		
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Introduction and purpose of the paper

1. The International Accounting Standards Board (Board) published its Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* in March 2020, with a comment letter deadline of 31 December 2020.

2. The Discussion Paper includes the Board's preliminary views to address feedback the Board heard during the Post-implementation Review (PIR) of IFRS 3 *Business Combinations*, including feedback about:
   - (a) disclosing information about business combinations;
   - (b) testing cash-generating units (CGUs) containing goodwill for impairment—effectiveness and cost;
   - (c) whether to reintroduce amortisation of goodwill; and
   - (d) recognising intangible assets separately from goodwill.

3. Agenda Paper 18A to this meeting contains a high-level summary of the feedback the Board received on the Discussion Paper.

4. This paper discusses the plan for redeliberating the Goodwill and Impairment project proposals.

Structure of the paper

5. This paper includes:

(a) Summary of the staff's plan for initial redeliberations (paragraphs 7–10);

(b) Factors to consider during redeliberations (paragraphs 11–25);

(c) Project scope and priorities (paragraphs 26–29);

(d) Approach to redeliberations by project topic (paragraphs 30–54); and

(e) Question for the Board.

6. Appendix A contains a graphical representation of the staff's plan for initial redeliberations.

Summary of the staff's plan for initial redeliberations

7. As an initial step, the staff thinks the Board should redeliberate on the project's objective and scope.

8. The staff thinks the Board should then prioritise having an initial decision on whether to reintroduce amortisation of goodwill. A decision on whether to reintroduce amortisation, and decisions on other aspects of the Discussion Paper, might be affected by factors such as:

(a) the project objective;

(b) dependencies between topics in the project; and

(c) convergence with US generally accepted accounting principles (US GAAP).

9. The dependencies between aspects of the Board's preliminary views mean that the staff thinks the Board should have an initial discussion on the following topics around the same time as it makes its decision on whether to reintroduce amortisation of goodwill:

(a) whether the information on the subsequent performance of a business combination should be included in the financial statements and whether practical concerns raised by respondents can be addressed.

(b) whether the Board should pursue any of the suggestions of respondents to design a different impairment test to the one included in IAS 36 *Impairment of Assets* and, if not, whether the improvements to the application of the impairment test in IAS 36 should be pursued by the Board.

10. The staff thinks the Board's initial decision on whether to reintroduce amortisation, and whether that decision depends on other aspects of the Board's preliminary views, will then inform the prioritisation of future redeliberations in this project.

Factors to consider during redeliberations

11. In planning redeliberations the staff identified three cross-cutting factors that the staff thinks might affect the Board's decisions when redeliberating its preliminary views:

    (a) project objective (paragraphs 12–14);

    (b) dependencies between project topics (paragraphs 15–17); and

    (c) convergence with US GAAP (paragraphs 18–25).

Project objective

12. The project's objective is to explore whether entities can, at a reasonable cost, provide users of financial statements (users) with more useful information about the business combinations those entities make.

13. While most respondents who commented agreed with this objective, some respondents disagreed. They said that in the PIR of IFRS 3, the subsequent accounting for goodwill was identified as a high priority area of focus but providing better information about the subsequent performance of business combinations was assessed as a medium priority. In their view, therefore, the project's objective should be to address the effectiveness of the impairment test, rather than to focus on improving the disclosures an entity provides to users about business combinations.

14. Early in the Board's redeliberations it will need to consider whether the project's objective remains appropriate, for all aspects of the scope of the project. Having decided on whether the project's objective remains appropriate, the Board's redeliberations on individual topics will be framed within the context of that objective.

Dependencies between project topics

15. When publishing the Discussion Paper, the Board said that it views its preliminary views as a package of interconnected items. For example, the Board identified the following potential dependencies:

    (a) views on whether to retain the impairment-only model or reintroduce amortisation of goodwill may partly depend on views on whether the impairment test is effective at the timely recognition of impairment losses on goodwill, or can be made more effective.

    (b) views on whether to keep the mandatory annual quantitative impairment test may partly depend on views on whether amortisation of goodwill should be reintroduced.

    (c) views on amortisation and on simplifications of the impairment test may partly depend on views on whether to require additional disclosures about a business combination and its subsequent performance. These disclosures could reduce reliance on the impairment test to provide information about the performance of a business combination.

    (d) views on whether to include some intangible assets in goodwill may partly depend on views on whether amortisation of goodwill should be reintroduced.

16. A few respondents said they did not view the Board’s preliminary views as a package of views with a unifying objective. These respondents said the Board should consider some aspects of the Discussion Paper in separate projects.

17. If the Board decides to retain one project to consider all aspects of the Discussion Paper, decisions on one preliminary view may affect decisions on another preliminary view. It may be appropriate to consider some topics together to avoid potentially having to revisit decisions on one topic after the related topic is discussed. Alternatively, it may be appropriate for the Board to make tentative decisions on various topics, noting which decisions on other topics might change their view. This would allow the Board to reflect on the package of views and whether it meets the project objective after making a series of tentative decisions.

Convergence with US GAAP

18. Both IFRS Standards and US GAAP currently use an impairment-only approach to account for goodwill acquired in a business combination.

19. The US Financial Accounting Standards Board (FASB) has a project on its agenda on Identifiable Intangible Assets and Subsequent Accounting for Goodwill. The FASB's project is further ahead than the Board's. The FASB published an Invitation to Comment in July 2019 and has completed some of its redeliberations.

20. The objectives of the projects are similar but different—the objective of the Board is to explore whether entities can, at a reasonable cost, improve the information provided to users about business combinations. The objective of the FASB's project is:

> to revisit the subsequent accounting for goodwill and identifiable intangible assets broadly for all entities. This includes considerations for improving the decision usefulness of the information and rebalancing the cost benefit factors.

21. The FASB has tentatively decided to add amortisation of goodwill to its goodwill impairment model and that an entity:

    (a) should amortise goodwill on a straight-line basis;

    (b) should amortise goodwill over a 10-year default period, unless an entity elects and justifies another amortisation period based on the facts and circumstances of the business combination;

    (c) that elects another amortisation period would be subject to a cap; and

    (d) would not be required to reassess the amortisation period.

22. In the Discussion Paper, the Board asked respondents whether their responses depend on whether the outcome is consistent with US GAAP. Although many did not provide a response to the question, most respondents that did answer this question, said that convergence with US GAAP on the subsequent accounting for goodwill was desirable. Some of those respondents went further and said maintaining convergence was more important than adopting a particular accounting model for goodwill. However, many respondents said that their view did not depend on maintaining

convergence, or that the Board should base its decision on the evidence it has collected rather than solely on maintaining convergence.

23. Some respondents, particularly in Europe, raised convergence with US GAAP in the context of the Board's preliminary views to add a requirement to IFRS Standards for an entity to provide information about the subsequent performance of business combinations. Those respondents expressed concerns that being required to disclose information about the subsequent performance of business combinations would, in their view, put entities using IFRS Standards at a disadvantage compared to other entities, notably those reporting using US GAAP.

24. Convergence with US GAAP is therefore a factor for the Board to consider in redeliberating its preliminary views on improving disclosures about business combinations and the subsequent accounting for goodwill and might also affect the Board's decision on intangible assets acquired in a business combination.

25. How much weight the Board puts on maintaining or achieving convergence with US GAAP in each of those areas might affect whether the Board continues to consider its preliminary views in one project and may affect how quickly the Board would like to proceed with publishing an exposure draft (see paragraph 27).

Project scope and priorities

26. The Board will also need to consider the project's scope—whether to continue to consider all of the topics in the Discussion Paper in one project or whether to consider some topics in a separate project. Some respondents suggested the Board consider aspects of the Discussion Paper in a separate project, for example to consider:

    (a) the Board's preliminary views on improving disclosures in a separate project from the subsequent accounting for goodwill; or

    (b) the Board's preliminary views to simplify and improve the impairment test of CGUs containing goodwill separately from other topics in the Discussion Paper which might take longer for the Board to reach a conclusion.

27. The Board's decision on whether to redeliberate all of its preliminary views in one project might be affected by the factors discussed in paragraphs 11–25 of this paper. For example:

    (a) if the Board continues to identify dependencies between its preliminary views this might lead the Board to redeliberate all of its preliminary views in a single project;

    (b) the objective of the project and whether the Board's would like to assess the cost-benefit balance of the package of preliminary views as a whole; and

    (c) if the Board concludes that convergence with US GAAP is a key factor only for the subsequent accounting for goodwill and would like to publish an exposure draft at a similar time to the FASB, it might need to work on the subsequent accounting for goodwill in a separate project and progress it faster than other aspects of the Discussion Paper.

28. If the Board does decide to redeliberate some part of its preliminary views in a separate project, it might do so because it wants to prioritise the discussion on a particular topic. For example, some preparers said that the Board should split out the simplifications to the impairment test from other parts of the project and work on these first so that preparers can access the cost savings those simplifications could provide earlier.

29. Even if the Board decides to maintain the scope of its project on Goodwill and Impairment and therefore to redeliberate its preliminary views in one project, the Board will need to consider the prioritisation of topics to discuss. The staff thinks the Board should prioritise initial redeliberations on whether to reintroduce amortisation of goodwill. A decision on whether to reintroduce amortisation of goodwill is key to resolving questions about convergence with US GAAP and is also important in deciding the prioritisation of the Board's future discussions. The staff thinks the Board's decision on whether to reintroduce amortisation of goodwill might depend on other topics in the Discussion Paper, for example the Board's preliminary views on improving disclosures about business combinations (see paragraph 47). Therefore, to assist the Board in making a decision on whether to reintroduce amortisation of goodwill the staff thinks the Board should have an initial discussion on whether it is possible to improve the effectiveness of the impairment test in IAS 36 and whether

the Board's preliminary view to add disclosure requirements to IFRS 3 is feasible in the context of the feedback from respondents on the practical challenges and also to consider the location of this information.

Approach to redeliberations by project topic

30. The following paragraphs set out the proposed approach for redeliberation on each of the main areas of the project, that is:

    (a) disclosures about business combinations (paragraphs 31–40);

    (b) improving the effectiveness of the impairment test of CGUs containing goodwill (paragraphs 41–44);

    (c) whether to reintroduce amortisation of goodwill (paragraphs 45–47);

    (d) simplifying the impairment test (paragraphs 48–52); and

    (e) other topics (paragraphs 53–54).

Disclosures about business combinations

31. The Board's preliminary view is that it should develop a proposal to add further disclosure objectives to IFRS 3 that would require an entity to provide information to help users to understand:

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

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

32. The Discussion Paper also included the Board's preliminary views that it should:

    (a) add a requirement to IFRS 3 that would require an entity to provide information about the subsequent performance of business combinations;

    (b) amend the requirements in IFRS 3 to improve the information provided to users about:

        (i) synergies expected in a business combination;

(ii) financing and defined benefit pension liabilities; and

(iii) the contribution of an acquired business.

Common areas of feedback on disclosures

33. Some aspects of the feedback from respondents on the Board's preliminary views related to disclosures are relevant for the Board's preliminary views on the disclosure objectives, disclosures about the subsequent performance of business combinations and quantitative information about synergies. Such feedback could initially be considered together in assessing the feasibility of the Board's preliminary views.

34. Feedback that is relevant for each of those preliminary views include:

(a) whether information about the subsequent performance of business combinations and quantitative information about synergies expected to arise in a business combination should be provided in management commentary or in financial statements (for example because of conceptual or practical reasons or to avoid the duplication of information).

(b) whether, and if so how, to address practical concerns like commercial sensitivity and the 'level playing field' between IFRS reporters and US GAAP reporters (for example, whether it is desirable or feasible to develop an exception for commercially sensitive information or to develop illustrative examples of what information an entity would disclose to help stakeholders to understand the level of detail of information expected).

Subsequent performance of business combinations

35. If the Board decides to proceed with its preliminary view that it should require an entity to provide information about the subsequent performance of business combinations, it will also need to make a series of decisions to confirm or amend its views on:

(a) whether to continue with a management approach or instead to specify metrics an entity would be required to disclose:

(i) if the Board confirms it wants to proceed with a management approach it will then decide whether to continue to use the entity's Chief Operating

Decision Maker (CODM) as the filter for identifying what information is required to be disclosed for which business combinations;

(ii) if the Board decides to specify metrics an entity is required to disclose it will need to consider what metrics to require;

(b) the time period an entity would be required to provide information about the subsequent performance of business combinations for; and

(c) other aspects raised by respondents—for example, whether to exempt unlisted entities from the requirements.

Synergies

36. If the Board decides to proceed with its preliminary views on disclosures about synergies, aspects of the Board's preliminary views, other than those described in paragraph 34, that the Board will need to consider in its redeliberations include:

(a) how to define synergies and whether to define cost and revenue synergies separately;

(b) how to define when synergies are 'realised';

(c) whether to require information about other components of goodwill; and

(d) whether to require information about the subsequent attainment of synergies.

Contribution of an acquired business

37. The Board will need to decide whether:

(a) to continue to require an entity to provide information about the contribution of an acquired business or move to alternative methods of providing users with useful information.

(b) whether to replace 'profit or loss' with 'operating profit or loss before deducting acquisition-related transaction and integration costs' and, if so, how to define acquisition-relation transaction and integration costs.

(c) whether to add a requirement for an entity to disclose information about cash flows from operating activities.

(d) whether to add guidance on how an entity prepares this information and if so what guidance to add. If not, whether to require an entity to disclose how it prepared the information.

Financing and defined benefit pension liabilities

38. Responses to the Board's preliminary view were mostly positive—the Board will need to consider whether to continue with its preliminary view.

Balance of disclosures

39. A few respondents to the Discussion Paper said that the cost of complying with each of the Board's proposed new disclosure requirements may be small in isolation but when considered with the disclosure requirements in IFRS 3 the aggregate cost is high.

40. Those respondents suggested the Board add new disclosure requirements only if it removes some requirements from IFRS 3. In the Discussion Paper, the Board said it plans to consider whether there are any disclosure requirements in IFRS 3 it can remove to help balance costs for preparers.

Effectiveness of the impairment test

41. 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 CGUs containing goodwill in IAS 36 at a reasonable cost. However, the Board would need to consider the alternative views provided by some respondents and decide whether to confirm its preliminary view not to make significant changes to the impairment test of CGUs containing goodwill in IAS 36.

42. If the Board decides not to consider alternative impairment tests further, the Board could decide to investigate the suggestions respondents made to improve the application of the impairment test in IAS 36. In particular, whether it is feasible to improve the application of the impairment test through:

    (a) additional disclosure requirements or guidance to combat management over-optimism; and/or

(b) additional requirements or guidance to improve the level at which goodwill is allocated to CGUs to reduce the 'shielding' effect described in the Discussion Paper.

43. The amount of discussion on this topic might be influenced by the Board's decisions in other areas of the Discussion Paper. For example, if the Board decides to reintroduce amortisation of goodwill then there might be less pressure to improve the application of the impairment test. Alternatively, if the Board decides that it would only reintroduce amortisation if it concludes that improving the application of the impairment test isn't feasible, the Board's discussions on improving the effectiveness of the impairment test topic become of higher priority.

44. The Board could also decide that these potential improvements would be necessary regardless of whether amortisation of goodwill is reintroduced since an impairment test would still be required whichever model is adopted for the subsequent accounting for goodwill.

Whether to reintroduce amortisation of goodwill

45. In the Discussion Paper the Board asked respondents whether there is any new evidence or arguments that would suggest the Board should reintroduce amortisation of goodwill. In addition, the Board should consider its decision in the context of the overall objective of this project (see paragraphs 12–14).

46. The staff thinks that feedback on the following four areas might be relevant for the Board to consider in deciding whether to reintroduce amortisation of goodwill:

(a) conceptual arguments;

(b) practical arguments;

(c) user views; and

(d) convergence with US GAAP.

47. In September, the staff will ask the Board for further direction on this topic. The staff thinks there might be three outcomes of the Board's initial direction:

(a) deciding not to consider amortisation of goodwill further—the project would therefore focus on other areas such as improving disclosures about business combinations or improving the effectiveness of the impairment test of CGUs containing goodwill.

(b) deciding to reintroduce amortisation of goodwill—the Board would then work on the amortisation model, including possible transition arrangements. The Board could consider other aspects of the project either alongside or after the Board's discussion on the amortisation model.

(c) a conditional decision to reintroduce amortisation of goodwill—this could be conditional on, for example, the Board's ideas for improving disclosures about business combinations being feasible or the ideas for improving the application of the impairment test described in paragraphs 41–44 not being feasible. The Board would work on those other areas first before considering whether its conditions to reintroduce amortisation of goodwill have been met.

Simplifying the impairment test

48. There are two aspects to the Board's efforts to simplify the impairment test of CGUs containing goodwill:

(a) providing relief from having to perform an annual quantitative impairment test for CGUs containing goodwill if there is no indication that an impairment may have occurred; and

(b) simplifying and improving the requirements for estimating value in use.

49. Most respondents disagreed with providing relief from having to perform an annual quantitative test. The key Board decision is whether to continue with its preliminary view. This decision may be influenced by Board decisions elsewhere—for example on whether to reintroduce amortisation of goodwill.

50. If the Board decides not to provide relief from having to perform an annual quantitative test it could consider alternatives suggested by some respondents—for example, to explore whether it is possible to make existing relief in paragraph 99 of IAS 36 easier to apply.

51. Feedback on the Board's preliminary views to simplify and improve the requirements for estimating value in use was generally positive and the Board could decide to

proceed with amending these requirements. The Board would need to consider suggestions from some respondents that the Board:

(a) place some constraints on when asset enhancement or restructuring cash flows should be included in the estimate of value in use; and

(b) 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.

52. The Board will also need to consider other areas of possible simplification—for example, whether to simplify the estimation of value in use for CGUs containing a right-of-use asset recognised applying IFRS 16 *Leases*.

Other topics

53. The key decision for the Board in relation to intangible assets is whether to amend IFRS Standards to include in goodwill some intangible assets recognised in a business combination. If so, the Board will need to consider which intangible assets to include within goodwill. The Board's decision on this matter might be affected by its decision on whether to reintroduce amortisation since some respondents said the reintroduction of amortisation of goodwill could allow the Board to revisit the separate recognition of intangible assets in a business combination.

54. In relation to the Board's preliminary view that it should require an entity to present total equity excluding goodwill on its statement of financial position, the Board will need to consider whether to progress with its preliminary view. Almost all respondents disagreed with this preliminary view. However, the Board's decision on whether to proceed with this preliminary view may partly depend on whether the Board decides to reintroduce amortisation.

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

Appendix A – Overview of future decisions

A1. This appendix contains a graphical representation of the staff's plan for initial redeliberations described in paragraphs 7–10.