

## Meeting Notes—CMAC Meeting

The Capital Markets Advisory Committee (CMAC) held a virtual meeting on 11 November 2021, broadcast by the International Accounting Standards Board (Board).

Members discussed the following projects:

- IASB Update
- Goodwill and Impairment (paragraphs [1-30])
- Forthcoming Exposure Draft: Supplier Finance Arrangements – proposed amendments to IAS 7 and IFRS 7 (paragraphs [31-38])

### Goodwill and Impairment

1. The purpose of this session was to seek CMAC members' views on some of the preliminary views expressed by the IASB in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* that the IASB is redeliberating. CMAC members were asked about:
  - a. disclosures about business combinations (paragraphs 2–13);
  - b. subsequent accounting for goodwill (paragraphs 14–24); and
  - c. convergence with US GAAP (paragraphs 25–29).

### Disclosures about business combinations

#### Background

2. The IASB's preliminary view is that it should require entities to provide information about the subsequent performance of business combinations (subsequent performance information) that the entity's chief operating decision maker (CODM) monitors.
3. However, some respondents to the Discussion Paper said that using an entity's CODM to identify the business combinations for which subsequent performance information should be disclosed could result in users of financial statements (users) not receiving information about all business combinations that matter to users.
4. The staff asked CMAC members which business combinations they need subsequent performance information about.

### Importance of subsequent performance information

5. Most CMAC members said subsequent performance information is important and that they seldom receive such information. Some of those CMAC members said they need this information for stewardship purposes, for example, helping users hold management to account for acquisition decisions. One CMAC member said requiring entities to disclose subsequent performance information would be a better way to respond to concerns about the impairment test of cash-generating units (for example, concerns about not being effective or timely) than considering changes to the subsequent accounting for goodwill.

## **Business combinations for which subsequent performance information is needed**

6. Most CMAC members who commented said subsequent performance information is needed for all material acquisitions. Some of those CMAC members said that, in their experience, the information provided by entities for segment reporting (which is obtained using the concept of an entity's CODM) is not useful and does not represent how an entity's management operates the business. Those members are therefore concerned about using the CODM concept in the context of subsequent performance information.
7. One CMAC member said that ascertaining whether a business combination is material requires a qualitative assessment. The member said that, for example, subsequent performance information about a 'small' acquisition might be material if the acquisition gives the acquirer access to a new market.
8. One member said it would be reasonable to use the CODM to identify business combinations for which subsequent performance information is required to be disclosed. That CMAC member said it might be difficult for the IASB to specify which business combinations are material and that it would be practical to allow the CODM to exercise judgement.
9. One member said it would be reasonable to require the CODM to identify metrics that are relevant in assessing whether a business combination is successful.
10. One member said requiring information for all material business combinations could result in an overload of disclosures and be costly for preparers. That CMAC member suggested the IASB instead require an entity to describe the expected effect on revenue and profit or loss of the segment into which that acquisition is integrated.
11. Many CMAC members said it would be useful to receive aggregated information about the performance of individually immaterial business combinations that are strategically linked. Those CMAC members suggested considering what information serial acquirers—that is, entities that make a series of linked acquisitions—should be required to disclose.

## **Other comments**

12. Many CMAC members acknowledged the difficulty of an entity tracking the performance of an acquired business if it is integrated into another business.
13. One CMAC member suggested providing examples of the types of metrics an entity could be expected to disclose. That member suggested examples of metrics such as organic growth, margins and key ratios that have been affected by the acquisition.

## **Subsequent accounting for goodwill**

### **Background**

14. In [September 2021](#) the IASB decided to analyse specific aspects of the feedback on the subsequent accounting for goodwill, including whether it is feasible to make a reliable estimate of the useful life of goodwill and the pattern in which it diminishes.
15. The staff asked CMAC members whether information about the useful life of goodwill and the pattern in which it diminishes would be useful and if so, what that information would be used for.

## Comments from CMAC members

16. Many CMAC members said they favour an amortisation model that includes an impairment test. Some of these CMAC members said that an amortisation period based on management's estimates would provide useful information.
17. One CMAC member said it would provide insights into what to expect from goodwill. That CMAC member also said the amortisation expense in the income statement, together with the revenue generated by the business combination would better reflect the performance of the entity.
18. Although one CMAC member was uncertain as to whether the amortisation expense itself would be useful, that CMAC member said management's estimate of the useful life would provide insight into management's thinking regarding the recovery period for the investment. That CMAC member also said, if an impairment loss were to be recognised during the useful life, it would be possible to infer that the acquisition had not progressed according to management's expectations.
19. One other CMAC member said the amortisation expense itself would not be useful, but information about management's thought process when determining the useful life would help explain the rationale for the purchase price.
20. Some CMAC members provided other reasons for reintroducing amortisation of goodwill. They said:
  - a. doing so would help when comparing organic growth and acquired growth entities. However, one CMAC member said reintroducing amortisation would not help with this comparison because amortisation would introduce an expense in the income statement of an entity that grew through acquisition that does not exist for an entity that grows organically.
  - b. doing so would help with assessing management's stewardship. Applying the current impairment-only model can make it difficult to determine when there has been a loss in value.
  - c. goodwill is a wasting asset.
21. Many CMAC members said they generally favour an impairment-only model because amortisation would not provide useful information. They said:
  - a. an amortisation model had been tried before and analysts ignored the amortisation expense.
  - b. the useful life of goodwill will always be arbitrary and entities will use the maximum period allowed.
  - c. the impairment-only model better reflects whether a business combination is accretive. An amortisation model would treat all business combinations similarly and would not provide real insight into management performance.
  - d. that from a credit perspective, it is important to be able to determine future cash flows and amortisation would not provide any information that would help with making that determination. Impairment does help make that determination because it is based on future cash flows.
22. Some CMAC members said the ideal conceptual approach would be to split goodwill into components and to amortise some components of goodwill (for example,

components based on expected synergies), subject some components to an impairment-only model (for example, the component reflecting the going concern value of the acquired business) and to write off some components at the acquisition date (for example, overpayments).

23. One CMAC member did not expect a significant loss of information when moving from an impairment-only model to an amortisation model because, in their view, losses are recognised too late when using the impairment-only model. Two CMAC members disagreed and said impairment losses provide more useful information than an amortisation model.
24. Some CMAC members said if amortisation of goodwill were to be reintroduced, the amount of goodwill amortised should be clearly disclosed.

## **Convergence with US GAAP**

### **Background**

25. The staff asked CMAC members whether and how their analysis and comparison of entities would be affected if IFRS Standards and US generally accepted accounting principles (GAAP) were to diverge on the subsequent accounting for goodwill.

### **Comments from CMAC members**

26. Many CMAC members said divergence was not ideal and they would prefer if the accounting models could remain aligned. However, one CMAC member said that, in their view, information would be lost if amortisation of goodwill were reintroduced and that it might be reasonable to forgo consistency in favour of a better solution.
27. Many CMAC members said they could cope with different accounting models for the subsequent accounting for goodwill. However, some CMAC members said making adjustments to compare entities applying different models could become more difficult over time. One CMAC member said that, in their jurisdiction, local GAAP requires the amortisation of goodwill and that users were already coping with different accounting models for goodwill.
28. Many CMAC members said they would need additional information to enable them to compare entities using different accounting models for goodwill:
  - a. some members said they would need information about the amortisation expense by acquisition, rather than the total amortisation expense;
  - b. one member said it would be helpful if entities disclosed where the amortisation expense is reported as well as the amount recognised as amortisation expense;
  - c. one member said they would need information about the amount of cumulative amortisation expense and impairment;
  - d. one member said it would be helpful if the amount of amortisation expense could be disaggregated in the statement of cash flows;
  - e. one member said they would need information about how long each goodwill balance has been amortised and to which acquisition it relates; and

- f. one member said if they were trying to align with an amortisation model, they would need information about the amortisation period.
29. One CMAC member suggested that because an amortisation model is applied by some entities in Japan, the IASB should research how users in that jurisdiction cope with the different accounting models.

### **Next steps**

30. The IASB will consider the comments from members as it continues to redeliberate its preliminary views.

### **Forthcoming Exposure Draft: Supplier Finance Arrangements – proposed amendments to IAS 7 and IFRS 7**

31. The purpose of this session was to provide CMAC members with an overview of the IASB's forthcoming Exposure Draft *Supplier Finance Arrangements* and ask for preliminary feedback from members.
32. The staff presented an overview of the project and a summary of the upcoming proposed amendments to disclosure requirements. In particular, the staff said:
- a. the proposals are needed because the IASB has been informed that without targeted amendments to the current disclosure requirements, users of financial statements may be unable to obtain some of the information they need to understand and analyse supplier finance arrangements.
  - b. the IASB is proposing to introduce a disclosure objective and requirements that would require an entity to disclose information that enables investors to assess the effects of the company's supplier finance arrangements on its liabilities and cash flows.
  - c. the IASB's proposals also highlight the required disclosure of liquidity risk and risk management information and of non-cash changes in financing liabilities arising from supplier finance arrangements.
33. The staff asked CMAC members if they have any questions or feedback on the proposals. In particular, the staff asked CMAC members:
- a. whether they agree with the proposed disclosure objective;
  - b. whether they think the proposed disclosures would enable users of financial statements to assess the effects supplier finance arrangements have on an entity's liabilities and cash flows; and
  - c. which of the proposed disclosures they expect will be most or least useful.

### **Questions on the proposals**

34. To clarify their understanding of the proposals, CMAC members asked about:
- a. the scope of the project and whether the proposals would apply to arrangements such as those to finance potential future sale transactions.

- b. the differences between proposals of the IASB and the US Financial Accounting Standards Board (FASB). The FASB is conducting a project on disclosure of supplier finance program obligations and plans to publish an exposure draft for comment before the end of 2021.
- c. the relationship between the term 'financial liabilities' in the proposed requirements and the reference to 'trade and other payables' in the illustrative example in the agenda paper presented to the CMAC.
- d. information about the cash flow effects of the proposals and whether the proposals would require an entity to disclose the effect of supplier finance arrangements on the entity's operating and financing cash flows and whether the proposals would affect the classification of cash flows arising from those arrangements.
- e. a situation in which an entity discloses a range of payment due dates that is so wide as to lack usefulness for users of financial statements.

### **Feedback on the proposals**

- 35. CMAC members welcomed the IASB's proposals. They said they view the project on supplier finance arrangements as important and expect the proposed quantitative disclosure requirements to be useful. One member emphasised the usefulness of information about the carrying amount of financial liabilities that are part of the arrangement for which suppliers have already received payment from the finance providers and the range of payment due dates (for both financial liabilities that are part of the arrangement and trade payables that are not part of an arrangement). A few CMAC members explained that information as at the beginning and end of the current and comparative reporting periods would also be useful because many companies enter into these arrangements for multiple years to maximise the cash flow benefit.
- 36. One CMAC member said that the proposals might not fully satisfy the information needs of investors and analysts if those users rely on financial statement information from data aggregators and do not read the notes to the financial statements.
- 37. Some CMAC members said the proposed disclosure requirements would be enhanced if the proposals required an entity:
  - a. to identify the finance provider in a supplier finance arrangement because some companies may not make use of a bank;
  - b. to provide additional detail about the terms and conditions to be disclosed, including the capacity of the program, the expiry date of the program, any linkages to debt covenants and leverage ratios and the cost of the program to the entity;
  - c. to require disclosure of how many suppliers take part in an arrangement and identify the operating and reportable segments of the entity affected by supplier finance arrangements; and
  - d. to express the disclosure requirements about payment due dates with relation to the date of the statement of financial position instead of to the invoice date.

**Next steps**

38. The IASB will consider comments from CMAC members when it discusses the feedback on the exposure draft.

**Next meetings**

The next CMAC meeting will be held on 17 March 2022.