IFRS® Foundation

Business Combinations—Disclosures, Goodwill and Impairment

Global Preparers Forum

Agenda Paper 1

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Agenda

Purpose of this session

Background

- Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* was published in March 2020
- Board is considering feedback on the Discussion Paper

Purpose of this session

- To seek GPF members' views on the:
  - difference between business combinations for which an entity's Chief Operating Decision Maker (CODM) reviews the performance and 'material' business combinations;
  - feasibility of estimating a useful life of goodwill; and
  - possible effects of transitioning to an amortisation model

Project background

Goodwill and Impairment

2013–2015	2015–2019	Q1 2020	Q2–Q4 2020	2021–Q1 2022
IFRS 3 Post-implementation Review	Development of Discussion Paper	Discussion Paper published	Consultation period	Feedback summary and initial analysis

Objective

- Improve information entities provide about their acquisitions

Preliminary views

1.
   - Disclose management's objectives for acquisitions and subsequently disclose the performance against those objectives
   - Some targeted improvements to existing requirements
2.
   - Retain impairment-only model for goodwill
   - Simplify impairment test
3.
   - Present amount of total equity excluding goodwill
   - Do not change recognition of intangibles separately from goodwill

What is the Board investigating?

- In June 2021 the Board tentatively decided to retain the objective of the project unchanged from that described in the Discussion Paper. The objective is to explore whether entities can, at a reasonable cost, provide users with more useful information about the acquisitions those entities make. The Board also tentatively decided to make no changes to the project scope. The Board views its preliminary views as a package that meets the project objective.

- The Board decided on a project plan at its meeting in September 2021. As part of that project plan the Board is prioritising analysis of feedback on:
  - disclosures about business combinations; and
  - whether to retain the impairment-only model or whether to reintroduce amortisation for goodwill (the subsequent accounting for goodwill).

- The Board plans to:
  - make tentative decisions about disclosures to help the Board get a better understanding of the disclosure package it could develop; and
  - research particular aspects of the feedback on the subsequent accounting for goodwill.

- This analysis will help the Board decide on the subsequent accounting for goodwill. The Board is not currently developing an amortisation model.

Disclosures about business combinations

The Board’s preliminary view

The Board’s preliminary view	• Require entities to disclose in the year of a business combination, the strategic rationale and objectives for the acquisition and the metrics management plan to use to monitor achievement of those objectives. • In subsequent years require an entity to disclose performance against those objectives. • In developing the Discussion Paper, the Board heard that requiring disclosure of subsequent performance for all material business combinations might be costly for preparers. • The Board’s preliminary view is to require entities to disclose information about business combinations reviewed by management. Management would be defined using the concept of the Chief Operating Decision Maker (CODM) from IFRS 8 *Operating Segments*. • The Board expects such an approach to result in disclosure of the most important information about the most important business combinations.

Feedback on the preliminary view

Feedback on the Discussion Paper	
Feedback on the Discussion Paper	• Many respondents said using the CODM to identify business combinations is a practical approach that provides a reasonable cost-benefit balance. • However, some respondents said the CODM monitors only the most significant business combinations and that the Board's preliminary view would result in users of financial statements (users) not receiving information about all business combinations that matter to users – ie all 'material' business combinations. • A few respondents said the CODM monitors the performance of many business combinations, including immaterial ones—they said the Board's preliminary view would result in entities disclosing too much information. • A few respondents, including a few users, suggested requiring disclosure of subsequent performance of only 'significant' or 'fundamental' business combinations—perhaps using a quantitative threshold, for example the size of the acquired business as a percentage of the entity's revenue or market capitalisation.

Next steps

What is the Board investigating?	
What is the Board investigating?	• As a result of the feedback, the Board is researching the population of business combinations users need subsequent performance information about and the population of business combinations reviewed by CODMs. • This information will help the Board understand whether to continue with its preliminary view or whether to identify a different population of business combinations for which to require disclosures about. • In helping make this assessment, the Board would like to explore with preparers whether there is a difference between business combinations an entity’s CODM reviews the performance of and ‘material’ business combinations.

Disclosures about business combinations—Questions for GPF members

Questions on topic 1

- IFRS 3 requires an entity to provide information separately about each material business combination in the year of acquisition (other than for individually immaterial business combinations). Does your CODM review the performance of a different set of business combinations from those for which information is disclosed on an individual basis applying IFRS 3?
- If yes, does the CODM review information about more or less business combinations than you currently provide disclosures for applying IFRS 3?
- If the CODM reviews fewer business combinations, approximately what type of business combinations would not be disclosed applying the Board’s preliminary view?
- When the CODM does not review the performance of some business combinations, is there a lower level of management that reviews the performance of those business combinations?
- Are there business combinations which the CODM assesses or reviews at the time of acquisition but does not then monitor the subsequent performance of? If so, why?

Feasibility of estimating a useful life of goodwill

Background

Basis for Conclusions on IAS 36 (2004)	• The Board observed that the useful life of acquired goodwill and the pattern in which it diminishes generally are not possible to predict, yet its amortisation depends on such predictions. As a result, the amount amortised in any given period can be described as at best an arbitrary estimate of the consumption of acquired goodwill during that period. • The Board said that if a rigorous and operational impairment test could be devised, more useful information would be provided under an approach in which goodwill is not amortised, but is instead tested for impairment annually (or more frequently if events or changes in circumstances indicate that the goodwill might be impaired).
The Board's preliminary view	• Retain the impairment-only model

Feedback

Feedback on the Discussion Paper	• Some respondents favouring reintroducing amortisation said entities can reliably estimate goodwill's useful life. Although most acknowledged the challenges of doing so, they said doing so would be no more challenging than estimating the useful life of other tangible and intangible assets. • Many of these respondents, a few of whom were users, said judgements about goodwill's useful life could provide useful information about the period over which management expects to realise benefits associated with goodwill and an amortisation model could provide useful information by allocating the goodwill balance to periods over which the benefits are realised. • Some respondents said entities would have information from the acquisition process (for example, estimates of synergies and payback periods) that could allow management to reasonably estimate goodwill's useful life. • Many of those suggesting basing goodwill's useful life on management estimates also suggested capping the amortisation period (10 or 20 years was the commonly suggested capping period).

Next steps

What is the Board investigating?	

	• In 2004, when moving to an impairment-only model, the Board noted that respondents to that Exposure Draft generally accepted that 'the useful life of acquired goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which that goodwill diminishes be known.'
	• Feedback to the Discussion Paper was more mixed than in 2004, which indicates a possible shift in stakeholder views.
	• The Board is therefore investigating:
	  • the feasibility of estimating the useful life of goodwill;
	  • how useful that information would be to users; and
	  • whether entities have information that would allow them to reliably estimate the useful life of goodwill and the pattern in which it diminishes.

Subsequent accounting for goodwill—Questions for GPF members

Questions on topic 2

- In your view, is it feasible to reliably estimate the useful life of goodwill and the pattern in which goodwill diminishes in value on a transaction by transaction basis:
  - in the year of the business combination; and
  - subsequently (if the entity were required to reassess its estimates in future periods)?
- If so, what information would you use to make these estimates? Is that information readily available?
- What costs would you face if the Board required entities to estimate the useful life and pattern of diminishment of goodwill?

Potential effects of reintroducing amortisation

Feedback received and the Board’s further work

Feedback on the Discussion Paper	• A few respondents commented on transition if amortisation is reintroduced, with many of these concerned about the potential impact of reintroducing amortisation on entities’ reported financial positions. • One respondent favoured retaining the impairment-only model because of the potential effect on capital markets and entities’ reported financial positions.

What is the Board investigating?	• As part of the Board’s consideration as to whether to retain the impairment-only model or whether to reintroduce amortisation it is investigating the potential effects of reintroducing amortisation.

Subsequent accounting for goodwill—Question for GPF members

Question on topic 3

- If the Board were to reintroduce amortisation and require a portion of historic goodwill balances to be derecognised on transition to the amortisation model, are you aware of any effect this might have on:
  - an entity’s ability to remain listed according to the listing rules in your jurisdiction?
  - an entity’s ability to pay dividends – both in the year of transition and in future years under an amortisation model?
  - an entity’s ability to meet loan covenants?
  - an entity because of any other market regulations or jurisdictional requirements?

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