

## STAFF PAPER

October 2021

## IASB® meeting

Project	Goodwill and Impairment		
Paper topic	Cover paper		
CONTACT(S)	Craig Smith	<a href="mailto:csmith@ifrs.org">csmith@ifrs.org</a>	+44 (0)20 7246 6410

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

**Introduction and purpose of this meeting**

1. At its meeting in [September 2021](#) the International Accounting Standards Board (Board), as part of its Goodwill and Impairment project, decided to prioritise performing further work to:
  - (a) make tentative decisions on the package of disclosures about business combinations; and
  - (b) analyse specific aspects of the feedback on the subsequent accounting for goodwill.
2. The purpose of this meeting is for the Board to begin making tentative decisions about the package of disclosures about business combinations.

**Plan for redeliberating the Board’s preliminary views related to disclosure requirements**

3. We plan to use a ‘building blocks’ approach to help the Board develop the package of proposed disclosure requirements. As part of this approach we plan to ask the Board to make a series of tentative decisions about the package of disclosures that build on each other. As the Board makes tentative decisions, we will consider whether any of the tentative decisions would affect, and therefore require reconsideration of, a previous tentative decision.
4. As mentioned in paragraphs 11–13 of [Agenda Paper 18](#) to the Board’s September meeting, we have developed staff examples illustrating the information we expect

entities to disclose applying the Board’s preliminary views. We will bring feedback on these staff examples to a future meeting.

5. In the coming months, we expect to also provide the Board with analysis and staff recommendations of the matters listed in paragraph 14 of [Agenda Paper 18](#) to the Board’s September meeting.
6. In this meeting we begin the ‘building blocks’ approach by providing our analysis and recommendation in relation to conceptual concerns raised by respondents regarding requiring the information that would be disclosed applying the Board’s preliminary views in financial statements. We think this is a fundamental building block that forms the basis of any further analysis on the Board’s preliminary view. If the Board were to decide that, applying the *Conceptual Framework for Financial Reporting*, it cannot require the information that entities would disclose applying its preliminary views to be included in financial statements, the Board need not further consider those preliminary views as part of this project. The Board could instead further consider those preliminary views as part of its Management Commentary project.

### **Papers for this meeting**

7. We will discuss the following papers in this meeting:
  - (a) Agenda Paper 18A: Conceptual concerns on the location of information—our analysis and recommendation on conceptual concerns on whether information about the benefits an entity’s management expect from a business combination and the extent to which management’s objectives are being met can be required in financial statements; and
  - (b) Agenda Paper 18B: Practical concerns on the location of information—an update on additional research on practical concerns about disclosing information on the subsequent performance of business combinations in financial statements and our analysis of possible responses.

## Appendix—Summary of proposals, feedback and tentative decisions

Topic	Summary of the Board's preliminary view	Summary of feedback	Tentative decisions
Objective and scope	The project's objective is to explore whether an entity can, at a reasonable cost, provide users of financial statements (users) with more useful information about the business combinations those entities make.	<p>See <a href="#">Agenda Paper 18A</a> to the Board's March 2021 meeting</p> <p>Most respondents who commented on the project's objective agreed. However, some respondents, notably in Germany and Japan, disagreed.</p> <p>Many respondents commenting on the scope agreed with it. However, many respondents commenting on the project's scope said that they did not view the Board's preliminary views as a package of views with a unifying objective. Many of those respondents suggested considering disclosures separately from the subsequent accounting for goodwill.</p>	<p><a href="#">June 2021</a></p> <p>The Board tentatively decided to leave the objective of the project unchanged from that described in the Discussion Paper and to make no changes to the project's scope at this stage.</p> <p><a href="#">September 2021</a></p> <p>The Board decided to prioritise performing further work to:</p> <ul style="list-style-type: none"> <li>a. make tentative decisions on the package of disclosures about business combinations; and</li> <li>b. analyse specific aspects of the feedback on the subsequent accounting for goodwill.</li> </ul>
Disclosure on the subsequent performance of business combinations	<p>The Board's preliminary view is that it should develop proposals to:</p> <ul style="list-style-type: none"> <li>(a) amend IFRS 3 <i>Business Combinations</i> to replace the requirement to disclose the primary reasons for a business combination with a requirement for an entity to disclose the strategic rationale for undertaking a business combination and management's objectives for the business combination.</li> </ul>	<p>See <a href="#">Agenda Paper 18C</a> to the Board's April 2021 meeting</p> <p>Many respondents, including almost all users, agreed that an entity should be required to provide additional information about the subsequent performance of business combinations and with basing that information on what an entity's management review.</p> <p>However, many respondents, including many preparers, had concerns about the cost of providing this information.</p>	N/A

Topic	Summary of the Board's preliminary view	Summary of feedback	Tentative decisions
	(b) add a requirement for companies to disclose in the year in which a business combination occurs, the metrics that management will use to monitor whether its objectives are being met and in subsequent years the extent to which management's objectives are being met using those metrics.	In addition, many respondents said information about the performance of business combinations should be provided in an entity's management commentary rather than financial statements.	
Improvements to existing IFRS 3 disclosure requirements	<p>The Board's preliminary view is that it should develop proposals to:</p> <ul style="list-style-type: none"> <li>a) add additional disclosure objectives to IFRS 3;</li> <li>b) amend paragraph B64(e) of IFRS 3 to require a company to disclose the estimated amount or range of amounts of expected synergies arising from the business combination;</li> <li>c) amend paragraph B64(i) of IFRS 3 to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities;</li> <li>d) retain the requirement for an entity to disclose information about the contribution of the acquired business, with some amendments to the requirements.</li> </ul>	<p>See <a href="#">Agenda paper 18D</a> to the Board's April 2021 meeting</p> <p>Of the Board's other preliminary views on disclosures, the requirement to disclose additional quantitative information about synergies attracted most comment. The Board received mixed feedback on this preliminary view.</p> <p>Respondents generally agreed with the Board's preliminary views that it should add new disclosure objectives and a requirement to disclose debt and pension liabilities obtained in a business combination.</p> <p>There was mixed feedback on the Board's preliminary views on information about the contribution of the acquired business.</p>	N/A
Effectiveness of the impairment test	The Board's preliminary view is that it is not feasible to design a different impairment test for cash-generating units containing goodwill that is significantly more effective than the impairment test in IAS 36 at recognising impairment losses on goodwill on a timely basis and at a reasonable cost.	<p>See <a href="#">Agenda Paper 18B</a> to the Board's May 2021 meeting</p> <p>Most respondents agreed with the Board's preliminary view that it is not feasible to design a different impairment test that is significantly more effective than the impairment test of cash-generating units containing goodwill in IAS 36 at a reasonable cost.</p>	N/A

Topic	Summary of the Board's preliminary view	Summary of feedback	Tentative decisions
		However, many of those respondents suggested how the Board could improve the application of the impairment test in IAS 36. In particular, many respondents suggested ideas for additional disclosure requirements to combat management over-optimism and suggested the Board develop additional guidance to improve the level at which goodwill is allocated to cash-generating units to reduce the 'shielding' effect described in the Discussion Paper.	
Subsequent accounting for goodwill	By a small majority (eight out of 14 Board members), the Board reached a preliminary view that the Board should retain the impairment-only model rather than reintroduce amortisation of goodwill.	See <a href="#">Agenda Paper 18C</a> to the Board's May 2021 meeting  Respondents remain divided on whether the Board should reintroduce amortisation of goodwill. Many respondents agreed with the Board's preliminary view to retain the impairment-only approach but many other respondents disagreed with the Board's preliminary view and instead advocated reintroducing amortisation of goodwill.	N/A
Simplifying the impairment test	The Board's preliminary view is that it should develop proposals to: <ul style="list-style-type: none"> <li>• reduce the cost and complexity of performing the impairment test by providing entities with relief from having to perform an annual quantitative impairment test for cash-generating units containing goodwill if there is no indication that an impairment may have occurred; and</li> <li>• reduce cost and complexity, and to provide more useful and understandable information by simplifying the requirements for estimating value in use.</li> </ul>	See <a href="#">Agenda Paper 18D</a> to the Board's May 2021 meeting  Most respondents, including some preparers, did not support the Board's preliminary view that it should implement an indicator-based impairment test for goodwill.  However, respondents generally welcomed the Board's preliminary views on simplifying and improving how value in use should be estimated.	N/A
Presenting total equity excluding goodwill	In the Board's preliminary view, it should develop a proposal to require an entity to present on its statement of financial position the amount of total equity excluding goodwill. This amount would likely be presented as a free-standing item, and not as a subtotal, or line item, within the structure of the statement of financial position.	See <a href="#">Agenda Paper 18E</a> to the Board's May 2021 meeting  Almost all respondents disagreed with the Board's preliminary view that it should require an entity to present in its statement of financial position an amount representing total equity excluding goodwill. In their view, users can easily calculate that amount and presenting that amount could cast doubt on whether goodwill is an asset.	N/A

Topic	Summary of the Board's preliminary view	Summary of feedback	Tentative decisions
Intangible assets acquired in a business combination	The Board's preliminary view is that it should not change the recognition criteria for identifiable intangible assets that are acquired in a business combination	See <a href="#">Agenda Paper 18E</a> to the Board's May 2021 meeting  Most respondents who commented on the question, including many users, agreed with the Board's preliminary view not to develop such a proposal. In their view, goodwill and other intangible assets acquired in a business combination are different in nature and recognising these assets separately provides users with better and more useful information.	N/A

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