Staff paper

Agenda reference: 18C

IASB® meeting

Date	**December 2022**
Project	**Goodwill and Impairment**
Topic	**Total equity excluding goodwill**
Contacts	**Craig Smith** (csmith@ifrs.org)

Purpose and structure

1. The purpose of this paper is to provide the International Accounting Standards Board (IASB) with our analysis of feedback to the IASB's preliminary view to require an entity to present on its statement of financial position the amount of total equity excluding goodwill. The preliminary view was expressed in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*.

2. We ask whether the IASB agrees with our recommendation to not proceed with its preliminary view.

3. The paper is structured as follows:

   (a) background (paragraphs 4–13);

   (b) staff analysis (paragraphs 14–22); and

   (c) question for the IASB (paragraph 23).

Background

The preliminary view

4. The IASB's preliminary view was to require an entity to present on its statement of financial position the amount of total equity excluding goodwill (proposed presentation). This Discussion Paper explains that the IASB would be likely to require entities to present this amount as a free-standing item, and not as a subtotal within the structure of the statement of financial position.

5. Paragraphs 3.107–3.115 of the Discussion Paper explain the preliminary view and the reasons for the preliminary view. In particular, the IASB noted that:

   (a) although its Exposure Draft *General Presentation and Disclosures* proposed requiring entities to present goodwill as a separate line item on the balance sheet, the proposed presentation would provide further transparency about the effect of goodwill and so contribute further to the understand of users of financial statements (users) of an entity's financial position.

(b) although simple for users to calculate, the proposed presentation would give this amount more prominence.

Feedback

6. A few respondents agreed with the preliminary view. They said the proposed presentation would bring greater transparency and highlight risky businesses to users, especially those users that are relatively inexperienced. A few preparers said they present or disclose similar amounts, such as net tangible assets, in their financial statements.

7. However, almost all respondents who commented on this topic disagreed. In their view:

   (a) the proposed presentation is unnecessary;

   (b) the proposed presentation lacks conceptual basis;

   (c) the proposed presentation could cast doubt on whether goodwill is an asset; and

   (d) the IASB should focus on addressing the subsequent measurement of goodwill, and not use presentation as a substitute.

8. Most respondents who disagreed said the proposed presentation is unnecessary because users could easily compute total equity excluding goodwill based on information already in financial statements. Many of those respondents also said the IASB's Exposure Draft *General Presentation and Disclosures* already proposes to require an entity to present its goodwill balance on the statement of financial position separately from intangible assets. In their view, that requirement would bring sufficient prominence to an entity's goodwill balance, and introducing additional items could clutter the statement of financial position. A few respondents suggested requiring entities to disclose the amount in the notes to financial statements, rather than to present it on the statement of financial position.

9. Some respondents said the amount of 'total equity excluding goodwill' has no conceptual basis. The *Conceptual Framework for Financial Reporting* identifies assets, liabilities, equity, income and expenses as the five elements of financial statements. In those respondents' view, 'total equity excluding goodwill' does not meet the definition of any of those elements and it is unclear what the amount conceptually represents.

10. Many respondents who disagreed said the proposed presentation contradicts the IASB's position that goodwill is an asset and the presentation of this amount could confuse users. A few respondents said the proposed presentation could cast doubt on the reliability of the impairment test of cash-generating units containing goodwill and the reliability of financial statements. A few of these respondents further suggested that if the IASB is of the opinion that goodwill is a questionable asset, it should amend IFRS Accounting Standards to prohibit the recognition of goodwill.

11. A few respondents said the proposed presentation could be misleading. In particular, it might be unclear whether, and if so, to what extent, is the non-controlling interest's share of goodwill included in the

amount of 'total equity excluding goodwill'. This is because, for example, of the accounting policy choice an entity has in the initial accounting of non-controlling interests.[1]

12. Some respondents cited other reasons for disagreeing with the IASB's preliminary view. These reasons included:

    (a) the proposed presentation could lead to unintended consequences, such as possible legal disputes that may arise from existing financial covenants or in bankruptcy proceedings.

    (b) the proposed presentation might give users a false impression that a business combination is financed by the acquirer through issuance of equity rather than through debt.

13. A few respondents suggested requiring entities present or disclose other items instead of the amount of total equity excluding goodwill, for example net tangible assets, working capital and net debt.

Staff analysis

14. Our analysis considers:

    (a) Prominence of goodwill balances (paragraphs 15–17);

    (b) Usefulness (paragraphs 18–20);

    (c) Other amounts (paragraph 21); and

    (d) Disclosure in the notes (paragraph 22).

Prominence of goodwill balances

15. Paragraphs 3.109–3.110 of the Discussion Paper (see paragraph 5) explain the IASB's reason for considering the proposed presentation.

16. Many respondents said the proposal in the IASB's Exposure Draft *General Presentation and Disclosures* to require entities to present goodwill as a separate line item on the statement of financial position is sufficient to highlight the effect of, and give sufficient prominence to, goodwill. In February 2022, as part of its deliberations on its project on *Primary Financial Statements,* the IASB tentatively decided to proceed with that proposed requirement.

17. We think the arguments made by respondents are persuasive. In particular, feedback indicates that requiring an entity to present goodwill separately from intangible assets in the statement of financial position would itself give sufficient prominence to goodwill and addresses the IASB's reason for its preliminary view.

---

[1] Paragraph 19 of IFRS 3 *Business Combinations* allows an entity to elect on initial recognition to measure non-controlling interests at fair value or at the non-controlling interest's proportionate share in the recognised amounts of the acquiree's identifiable net assets. If the non-controlling interest is measured at fair value, the goodwill initially recognised includes the non-controlling interest's share of goodwill; if the non-controlling interest is measured at its proportionate share of the acquiree's identifiable net assets, the goodwill initially recognised includes only the acquirer's share of goodwill.

Usefulness

18. As noted in paragraph 6, a few respondents said the proposed presentation would help highlight risky businesses to users, especially those users who are relatively inexperienced.

19. However, most users said the proposed presentation would not provide useful information. Indeed, a few users said the proposed presentation could be misleading. Included in users disagreeing with the preliminary view was one user group representing the interests of individual shareholders, the UK Shareholders' Association. This is feedback on behalf of less experienced users and contradicts suggestions that less experienced users might find the proposed presentation useful.

20. In our view, feedback does not indicate that the proposed presentation would be useful.

Other amounts

21. We think the IASB should not consider subtotals in paragraph 13 further. As noted in paragraph 5 the objective of the preliminary view was to provide more prominence to goodwill balances. Paragraph 3.108 of the Discussion Paper notes that the IASB considered, but decided not to require entities to, exclude other intangible assets in determining this amount because of the unique nature of goodwill. The other subtotals described in paragraph 13 would not meet the IASB's objective of giving more prominence to goodwill balances.

Disclosure in the notes

22. As noted in paragraph 8, a few respondents suggested requiring an entity to disclose the amount of total equity excluding goodwill in the notes rather than presenting it on the statement of financial position. In our view, disclosing this amount in the notes would not give as much prominence to this amount as presenting on an entity's statement of financial position. In addition, the other concerns raised (for example that users will not find this measure useful and that it is easy to calculate this amount) would not be resolved. Accordingly, we think the IASB should not consider this option further.

Staff recommendation and question for the IASB

23. For the reasons set out in paragraphs 14–22, we recommend not proceeding with its preliminary view to require an entity to present on its statement of financial position the amount of total equity excluding goodwill.

Question for the IASB
Does the IASB agree with our recommendation to not proceed with its preliminary view to require an entity to present on its statement of financial position the amount of total equity excluding goodwill?