IFRS

STAFF PAPER

May 2022

IASB® meeting

Project	**Goodwill and Impairment**	
Paper topic	Cover paper	
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Introduction and purpose of this meeting

1. The objective of the International Accounting Standards Board's (IASB) Goodwill and Impairment project 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. The IASB is considering how to meet this objective by considering changes to disclosure requirements about business combinations, the subsequent accounting for goodwill (that is whether to reintroduce amortisation of goodwill) and other aspects of the accounting for business combinations.

2. The IASB published the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* in March 2020. The IASB's preliminary view in the Discussion Paper was to retain the impairment-only model for the subsequent accounting for goodwill.

3. In September 2021, the IASB decided to prioritise, amongst other things, performing further work to make decisions on the package of disclosure requirements about business combinations and to then redeliberate its preliminary view that it should retain the impairment-only model to account for goodwill. As part of the IASB's plan to redeliberate the preliminary views in the Discussion Paper the IASB asked us to further analyse specific aspects of feedback on the subsequent accounting for goodwill including:

(a) whether it is feasible to estimate a useful life of goodwill, and the pattern in which it diminishes, that faithfully represents its decline in value; and

(b) the potential consequences of transitioning to an amortisation-based model were the IASB to reintroduce amortisation of goodwill.

4. The purpose of this meeting is to provide the IASB with a summary of our research on these topics. Paragraphs 8–12 provide information about the project plan and how this research is relevant to that plan.

5. This paper summarises:

(a) the papers for this meeting (paragraphs 6–7);

(b) next steps (paragraphs 8–12); and

(c) proposals, feedback and tentative decisions to date (Appendix).

Papers for this meeting

6. We will discuss the following papers in this meeting:

(a) Agenda Paper 18A: Estimating the useful life of goodwill—summarises feedback from our research on whether it is feasible to estimate a useful life of goodwill, and the pattern in which it diminishes. The paper also includes some of our initial observations on the feedback.

(b) Agenda Paper 18B: Potential consequences of transitioning to an amortisation-based model—summarises feedback from our research on the potential consequences of transitioning to an amortisation-based model were the IASB to reintroduce amortisation of goodwill. For example, the potential effects of derecognising significant amounts of goodwill on transition. The paper also includes some of our initial observations on the feedback.

7. The papers do not ask the IASB for any decisions. However, each paper asks whether the IASB has any questions or comments on the feedback discussed in the papers.

Project next steps

8. Following comments from IASB members at the April 2022 IASB meeting, we plan to complete our research on the practical concerns raised by stakeholders on the IASB's preliminary views to add requirements for entities to disclose information about the subsequent performance of business combinations and quantitative information about expected synergies.

9. In Q3 2022 we plan to provide a summary of the results of the research described in paragraph 8 and then to ask the IASB to decide on whether to proceed with its preliminary views to add requirements for entities to disclose information about the subsequent performance of business combinations and quantitative information about expected synergies.

10. In Q4 2022 we plan to ask the IASB:

    (a) to decide on the subsequent accounting for goodwill; and

    (b) whether to move the project from the research phase to the standard-setting phase.

11. After those tentative decisions we will ask the IASB to make tentative decisions on other aspects of the project. For example, tentative decisions about the effectiveness of and simplifications to the impairment test in IAS 36 *Impairment of Assets* and the recognition of intangible assets acquired in a business combination.

12. Once the IASB has made tentative decisions on all aspects of the project we will ask the IASB whether the package as a whole meets the project objective.

Appendix—Summary of proposals, feedback and tentative decisions

Topic	Summary of the IASB'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.	See Agenda Paper 18A to the IASB's March 2021 meeting Most respondents who commented on the project's objective agreed. However, some respondents, notably in Germany and Japan, disagreed. 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 IASB'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.	June 2021 The IASB 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. September 2021 The IASB 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.
Disclosure on the subsequent performance of business combinations	The IASB's preliminary view is that it should develop proposals to: (a) amend IFRS 3 *Business Combinations* 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.	See Agenda Paper 18C to the IASB's April 2021 meeting 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. However, many respondents, including many preparers, had concerns about the cost of providing this information. 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.	October 2021 The IASB tentatively decided that, based on the *Conceptual Framework for Financial Reporting*, information can be required in financial statements about the benefits an entity's management expects from a business combination and the extent to which management's objectives are being met—such as information about the subsequent performance of a business combination, and

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	(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.		quantitative information about expected synergies.
Improvements to existing IFRS 3 disclosure requirements	The IASB's preliminary view is that it should develop proposals to add additional disclosure objectives to IFRS 3.	See Agenda Paper 18D to the IASB's April 2021 meeting Of the IASB's other preliminary views on disclosures, the requirement to disclose additional quantitative information about synergies attracted most comment. The IASB received mixed feedback on this preliminary view. Respondents generally agreed with the IASB's preliminary views that it should add new disclosure objectives and a requirement to disclose debt and pension liabilities obtained in a business combination. There was mixed feedback on the IASB's preliminary views on information about the contribution of the acquired business.	October 2021 The IASB tentatively decided that, based on the *Conceptual Framework for Financial Reporting*, information can be required in financial statements about the benefits an entity's management expects from a business combination and the extent to which management's objectives are being met—such as information about the subsequent performance of a business combination, and quantitative information about expected synergies.
Improvements to existing IFRS 3 disclosure requirements	The IASB's preliminary view is that it should develop proposals to 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;		October 2021 The IASB tentatively decided that, based on the *Conceptual Framework for Financial Reporting*, information can be required in financial statements about the benefits an entity's management expects from a business combination and the extent

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			to which management's objectives are being met—such as information about the subsequent performance of a business combination, and quantitative information about expected synergies. November 2021 The IASB tentatively decided: a. not to define 'synergies'. b. not to make changes to its preliminary view as a result of feedback on other specific aspects of its preliminary view. For the purpose of testing staff examples the IASB decided that the examples should illustrate disclosure of information about: a. total expected synergies disaggregated by nature; for example, total revenue, total cost and totals for other types of synergies; and b. when the benefits expected from the synergies are expected to start and how long they will last (which would require an entity to identify whether those synergies are expected to be one-off or recurring).
Improvements to existing IFRS 3	The IASB's preliminary view is that it should develop proposals to amend paragraph B64(i) of IFRS 3 to specify that liabilities arising from financing		November 2021 The IASB tentatively decided to achieve the objective of its preliminary view by not specifying

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disclosure requirements	activities and defined benefit pension liabilities are major classes of liabilities.		that these liabilities are major classes of liabilities but instead by proposing to amend: a. paragraph B64(i) of IFRS 3 to remove the term 'major'; and b. paragraph IE72 of the Illustrative Examples accompanying IFRS 3 to illustrate liabilities arising from financing activities and defined benefit pension liabilities as classes of liabilities assumed.
Improvements to existing IFRS 3 disclosure requirements	The IASB's preliminary view is that it should retain the requirement for an entity to disclose information about the contribution of the acquired business, with some amendments to the requirements.		[November 2021](#) The IASB tentatively decided: a. to retain the requirement in paragraph B64(q) of IFRS 3. b. to explain the objective of the requirement in paragraph B64(q)(ii) of IFRS 3 but not to provide guidance on how the information required by paragraph B64(q)(ii) should be prepared. c. to specify in paragraph B64(q)(ii) of IFRS 3 that the basis that an entity applies in preparing the information required by that paragraph is an accounting policy. d. to replace the term 'profit or loss' in paragraph B64(q) of IFRS 3 with 'operating profit or loss'. 'Operating profit or loss' will be as defined in the IASB's Primary Financial Statements project. e. not to add a requirement to disclose information about cash

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			flows arising from operating activities.
Effectiveness of the impairment test	The IASB'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.	See Agenda Paper 18B to the IASB's May 2021 meeting Most respondents agreed with the IASB'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. However, many of those respondents suggested how the IASB 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 IASB 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.	N/A
Subsequent accounting for goodwill	By a small majority (eight out of 14 IASB members), the IASB reached a preliminary view that the IASB should retain the impairment-only model rather than reintroduce amortisation of goodwill.	See Agenda Paper 18C to the IASB's May 2021 meeting Respondents remain divided on whether the IASB should reintroduce amortisation of goodwill. Many respondents agreed with the IASB's preliminary view to retain the impairment-only approach but many other respondents disagreed with the IASB's preliminary view and instead advocated reintroducing amortisation of goodwill.	N/A
Simplifying the impairment test	The IASB's preliminary view is that it should develop proposals to: • 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	See Agenda Paper 18D to the IASB's May 2021 meeting Most respondents, including some preparers, did not support the IASB's preliminary view that it should implement an indicator-based impairment test for goodwill. However, many of those who disagreed also said that the cost-benefit could be re-evaluated if the IASB decides to amortise goodwill. Respondents generally welcomed the IASB's preliminary views on simplifying and improving how value in use should be estimated.	N/A

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	• reduce cost and complexity, and to provide more useful and understandable information by simplifying the requirements for estimating value in use.		
Presenting total equity excluding goodwill	In the IASB'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 Agenda Paper 18E to the IASB's May 2021 meeting Almost all respondents disagreed with the IASB'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
Intangible assets acquired in a business combination	The IASB's preliminary view is that it should not change the recognition criteria for identifiable intangible assets that are acquired in a business combination.	See Agenda Paper 18E to the IASB's May 2021 meeting Most respondents who commented on the question, including many users, agreed with the IASB'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 IASB with a summary of feedback from users (Agenda Paper 18B to the IASB's April 2021 meeting) and a summary of academic evidence (Agenda Paper 18F to the IASB's May 2021 meeting).