Staff paper

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Project	**Goodwill & Impairment**
Topic	**Subsequent accounting for goodwill – Staff recommendation**
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Purpose and Structure

1. The purpose of the paper is to set out our recommendation on whether the International Accounting Standards Board (IASB) should proceed with its preliminary view in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* to retain the impairment-only model for the subsequent accounting for goodwill or whether it should explore reintroducing amortisation of goodwill.[1] [2]

2. Agenda Paper 18B is unchanged from Agenda Paper 18B to the IASB's October 2022 meeting and has been included for ease of reference. Agenda Paper 18B sets out the principal arguments in support of retaining the impairment-only model and exploring reintroducing amortisation of goodwill. We refer to and draw on some of those arguments and evidence in explaining our recommendation for the subsequent accounting for goodwill.

3. The paper is structured as follows:

   (a) Overview of staff recommendation (paragraphs 4–7); and

   (b) Staff recommendation (paragraphs 8–84):

      (i) Improving information (paragraphs 12–57);

      (ii) Reducing costs (paragraphs 58–73);

      (iii) Intangible Assets project (paragraphs 74–82); and

      (iv) Summary (paragraphs 83–84).

[1] We have described this as 'exploring' because if the IASB decides to propose reintroducing amortisation of goodwill it would first need to decide on the details of the amortisation-based model and therefore reintroduction of amortisation would be subject to developing a model the IASB agrees on. The Appendix to Agenda Paper 18B lists some of the detailed matters the IASB would need to consider.

[2] The reintroduction of amortisation or an amortisation-based model refers to a model that includes amortisation of goodwill and an impairment test.

Overview of the staff recommendation

4. Our recommendation is to proceed with the IASB's preliminary view in the Discussion Paper and retain the impairment-only model for the subsequent accounting for goodwill (that is, to not explore reintroducing amortisation of goodwill). In the context of the Post-implementation Review (PIR) of IFRS 3 *Business Combinations*, we think there is insufficient evidence of a compelling case for change.

5. Evidence collected in this project since the PIR of IFRS 3—to develop the preliminary views in the Discussion Paper and from responses to the Discussion Paper and subsequently—has highlighted that there continues to be strongly held and divergent views on the appropriate model for the subsequent accounting for goodwill.

6. We think the difference in views of the most appropriate model for the subsequent accounting for goodwill is largely driven by a difference in views of the nature of goodwill, and we have not found compelling evidence that one of these views is more appropriate than the other. Hence there is not compelling evidence that reintroducing amortisation of goodwill would significantly improve the information users receive.

7. Feedback on whether an amortisation-based model would significantly reduce costs for entities was also inconclusive. We think the evidence, particularly from the Financial Accounting Standards Board (FASB), indicates there are doubts of whether an amortisation-based model would significantly reduce costs for entities. Taken together with evidence of potential costs of transition and of diverging from US generally accepted accounting principles (US GAAP), we think there is not compelling evidence that reintroducing amortisation of goodwill would significantly reduce costs for entities.

Staff recommendation

8. The IASB commenced its Goodwill and Impairment project in response to the PIR of IFRS 3. The objective of the project is to explore whether entities can, at a reasonable cost, provide users with more useful information about the business combinations those entities make.

9. As Agenda Paper 18B highlights, there are two possible objectives for exploring reintroducing amortisation of goodwill which align with different elements of the project objective:

   (a) improving information about the business combinations entities make; and

   (b) reducing costs.

10. As discussed in paragraphs 3–5 of Agenda Paper 18B, we think the decision whether to retain the impairment-only model for the subsequent accounting for goodwill or to explore reintroducing amortisation of goodwill is a decision about whether evidence gathered since IFRS 3 was issued provides a compelling case for change. It is not a decision about which of those models is better, as if the IASB were introducing the requirements for the first time.

11. We therefore considered whether there is a compelling case for change that reintroducing amortisation of goodwill would:

    (a) significantly improve the information users receive about the business combinations entities make (paragraphs 12–57); or

    (b) significantly reduce costs for stakeholders (paragraphs 58–73).

Improving information

12. In determining whether amortisation would significantly improve the information users receive about business combinations we considered:

    (a) nature of goodwill (paragraphs 13–33);

    (b) other considerations (paragraphs 34–45);

    (c) the IASB's tentative decisions on improving disclosure requirements (paragraphs 46–48); and

    (d) an option to amortise goodwill (paragraphs 49–56).

Nature of goodwill

13. There continues to be evidence of strongly-held and divergent views about the appropriate model for the subsequent accounting for goodwill. For example, stakeholders views on this topic in response to the Discussion Paper were mixed. Many respondents agreed with the IASB's preliminary view to retain the impairment-only model but many disagreed and suggested reintroducing amortisation of goodwill.

14. Users views were also mixed. Although many favoured reintroducing amortisation of goodwill (because in their view the impairment test is not working, goodwill is a wasting asset and amortisation could provide useful information), many favoured retaining the impairment-only model (because in their view this model provides better information and amortisation would not provide useful information). Some users were ambivalent or had marginal views.

15. Some respondents said amortisation could provide useful information about the period over which management expects to realise the benefits associated with goodwill and, because amortisation allocates the cost in the income statement to the period of that benefit, the income statement would be more meaningful. However, some said amortisation would not provide useful information and the impairment-only model provides better information.

16. Feedback on 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, was mixed.[3] Some respondents said a reliable estimate could be made, whereas some disagreed and said a reliable estimate cannot be made.

[3] For convenience, we will refer to this as a 'reliable' estimate throughout the remainder of the papers for this meeting.

17. We think a key reason for these divergent views is a difference in stakeholders' views of the nature of goodwill and whether it is predominantly a wasting asset or an asset with an indefinite life. Although many respondents to the Discussion Paper favouring reintroducing amortisation said goodwill is a wasting asset, many who agreed with the IASB's preliminary view to retain the impairment-only model said goodwill generates economic benefits over an indefinite period.

Goodwill is a wasting asset

18. In the view of stakeholders who said goodwill is a wasting asset, the value of goodwill diminishes over time due to competition, technological factors, the realisation of the benefits of synergies as businesses are combined, or an acquiree's skilled workforce leaving or retiring.

19. They say the benefits represented by goodwill have a finite, determinable life and the concept of an asset with an indefinite life or perpetual benefits assumes reinvestment and this reinvestment is internally generated goodwill. In their view goodwill purchased in an acquisition does not have an unlimited life and conceptually amortisation of goodwill would recognise that. Paragraph 26 of Agenda Paper 18B includes an example of evidence these stakeholders provide to support these assertions.

20. We think the objective of the subsequent accounting for goodwill for these stakeholders is to reflect this steady decline in the value of goodwill and its consumption, thereby reflecting its wasting nature. An amortisation-based model would be the most appropriate model to meet this objective. Allocating the cost of acquired goodwill over the periods in which it is consumed would also match the cost with the related benefits.

21. If a reliable estimate of the useful life of goodwill and pattern in which it diminishes can be made, amortisation would, in these stakeholders' view:

    (a) help hold management to account—management would need to demonstrate that the business combination is generating sufficient earnings to cover the amortisation expense. This would be a better measure of performance and would provide information that allows users to assess the subsequent performance of a business combination.

    (b) provide useful information—for example managements' judgements about the useful life of goodwill would provide information about managements' expectations of the period over which an entity expects to realise benefits represented by goodwill. This would help users understand the benefits management expected from a business combination when agreeing the price to acquire a business.

Goodwill has an indefinite life

22. In the view of stakeholders who said goodwill has an indefinite life there is no foreseeable limit on the period over which an entity expects to consume the benefits represented by goodwill. The value of goodwill is expected to be sustained over an indefinite period rather than decline systematically over a defined period. Components of goodwill such as the assembled workforce (including the knowledge and

processes embedded in that workforce), cost synergies that are expected to be recurring, going concern value and business reputation, are all examples of components of goodwill that are considered by these stakeholders to have an indefinite life.

23. A few stakeholders referred to the International Valuation Standards Council's article *Is Goodwill a Wasting Asset?* which concluded that the majority of components in goodwill are not wasting.

24. We think the objective of the subsequent accounting for goodwill for these stakeholders is to reflect that goodwill does not lose its value like other assets—goodwill reduces in value due to events that do not usually occur consistently over time. An impairment-only model best meets this objective.

25. An impairment-only model, in these stakeholders' view:

    (a) helps hold management to account—maintaining the amount originally paid for goodwill as an asset on the statement of financial position helps those users that assess stewardship by analysing returns on invested capital represented by the goodwill. Impairment losses provide an assessment of the amounts paid for business combinations and of managements' past decisions helping users evaluate managements' ability to make successful acquisitions in the future and effectively integrate them.

    (b) provides useful information—about the performance of the business and about managements' expectations (from the disclosure of assumptions used in the impairment test). Although not designed to do so, the impairment test can provide some information about the success of business combinations. The test can also be a useful exercise for management as an internal governance process to assess its business.

Comparison of the different views

26. The different views persist because goodwill is a unique asset which cannot be directly measured and is consequently measured as a residual (see paragraph BC328 of the Basis for Conclusions on IFRS 3). This means goodwill can comprise a mixture of different items or components.

27. Different stakeholders have different views about these components, what they represent and whether they are wasting or indefinite in nature. Stakeholders can also have different views about the same component, for example whether any value attributed to the assembled workforce is wasting (because employees retire or leave the business) or indefinite (because the collective knowledge and processes embodied in the assembled workforce persist regardless of individual employees leaving).

28. Evidence collected in the project does not clearly demonstrate that one view is 'more correct' than the other. The views represent different perspectives of the nature of goodwill which, to their proponents, are valid and supported by well thought out evidence. These views are unlikely to be reconciled.

29. In fact we think some of the evidence from the PIR of IFRS 3 and this project simply reflects these divergent views rather than evidencing a compelling case for change.

30. For example, comments about the impairment test not working and goodwill balances being 'too high' could be due to unrealistic expectations of the impairment test of cash-generating units containing goodwill. Stakeholders that consider goodwill to be a wasting asset expect the subsequent accounting for goodwill to result in a steady decline in the value of goodwill and a regular expense to be recognised in the income statement representing the consumption of that goodwill.[4] The impairment test of cash-generating units containing goodwill is not designed to do this. It is designed to ensure goodwill and the other assets in the cash-generating units goodwill is allocated to, are carried at no more than their combined recoverable amount.

31. The lack of a regular expense in the income statement and goodwill balances that these stakeholders consider to be 'too high' does not mean the impairment test is not working. Instead it simply means that an amortisation-based model would be the more appropriate model for stakeholders with this view.

32. Likewise, stakeholders that consider goodwill to have an indefinite life say an amortisation-based model creates a disconnect with the underlying economics of a business combination—in their view, such a model cannot reflect the indefinite nature of goodwill, the benefits of which are reduced only by events that do not usually occur consistently over time.

33. We think the evidence collected does not demonstrate a compelling case for change.

Other considerations

34. We considered two other topics because they are key reasons stakeholders say the IASB should reintroduce amortisation of goodwill and would in their view be a compelling case for change:

    (a) Evidence of the impairment test not working as expected (paragraphs 35–40).

    (b) Whether entities can reliably estimate the useful life of goodwill (paragraphs 41–45).

Is the impairment test working as expected?

35. Paragraphs 42–53 of Agenda Paper 18B set out arguments suggesting the impairment test is meeting its objective.

36. We think evidence that goodwill balances are 'too high' is not compelling enough to suggest the impairment-only model is not working. To claim goodwill balances are 'too high' requires developing an expectation of the 'correct' goodwill balance. This is difficult because goodwill is not directly observable.

37. We think these views could arise from a misunderstanding of what the impairment test is designed to achieve and could reflect an unrealistic expectation that the impairment test can directly test goodwill or reflect consumption of that goodwill (see paragraph 30). Goodwill is an asset that cannot be directly measured and that does not generate cash inflows independently and is therefore tested for impairment

[4] For example, stakeholders refer to the high 'implied useful life' of goodwill (this is generally calculated by dividing the carrying amounts of goodwill by annual impairment losses) as evidence that the impairment test is not working.

as part of a group of cash-generating units. Consequently, there will always be an element of shielding in the impairment test and the IASB was aware of that when issuing IFRS 3.

38. Paragraph BC135 of the Basis for Conclusions on IAS 36 *Impairment of Assets* explains the IASB's conclusions that:

    (a) it is not possible to measure separately goodwill generated internally after an acquisition;

    (b) the carrying amount of goodwill will always be shielded from impairment by that internally generated goodwill; and

    (c) therefore, the objective of the goodwill impairment test could at best be to ensure that the carrying amount of goodwill is recoverable from future cash flows expected to be generated by both acquired goodwill and goodwill generated internally after the acquisition.

39. Because all goodwill operates jointly with other assets to generate cash flows, it is also not possible for any impairment test to discern whether the pre-existing internally generated goodwill, rather than the acquired goodwill, has been impaired and replaced by goodwill generated after the business combination. The objective of the test is to ensure that the carrying amounts of acquired goodwill, and of other assets within the cash-generating unit containing goodwill, are recoverable from the cash flows jointly generated by these assets, together with the internally generated goodwill of the unit. Its objective is not to test the acquired goodwill directly.

40. Criticism that management may sometimes be over optimistic in making the assumptions needed to carry out the impairment test or testing goodwill at too high a level is an application issue.[5] In the Discussion Paper the IASB considered this was best addressed by auditors and regulators. We continue to agree with this conclusion. However, stakeholders made some suggestions to improve the application of the impairment test which we think could be worth exploring further. As explained in paragraphs 72–73 of Agenda Paper 18B the IASB is yet to redeliberate improvements it could make to the impairment test of cash-generating units containing goodwill.

Can a reliable estimate of the useful life of goodwill be made?

41. In paragraph BC131E of the Basis for Conclusions on IAS 36 the IASB:

    (a) observed the useful life of acquired goodwill and the pattern in which it diminishes generally are not possible to predict;

    (b) acknowledged in some sense it must be true that acquired goodwill is being consumed and replaced by internally generated goodwill;

[5] For example, paragraph 33(a) of IAS 36 requires an entity, in measuring value in use, to base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset.

(c) remained doubtful about the usefulness of an amortisation charge that reflects the consumption of acquired goodwill, when internally generated goodwill replacing it is not recognised; and

(d) concluded that straight-line amortisation of goodwill over an arbitrary period fails to provide useful information.

42. The additional research we performed to understand how those preparers who said they could estimate the useful life of goodwill would make those estimates is, in our view, inconclusive regarding whether a reliable estimate can be made (see paragraph 16 above, paragraphs 59–62 of Agenda Paper 18B and paragraphs 60–61 of Agenda Paper 18A to the IASB's May 2022 meeting).

43. In some instances making this estimate could be relatively straightforward given the finite nature of the businesses being acquired. However, in other situations it could be more subjective and we found entities would use a range of different factors and methods to make these estimates. Although entities could make these estimates, the reliability of these estimates could be questionable. The requests for application guidance and an upper limit for the useful life of goodwill question whether it would be possible to ensure estimates would provide useful information about the facts and circumstances of goodwill recognised in different business combinations.

44. Therefore we think there is no clear evidence suggesting a need to revisit the IASB's conclusions outlined in paragraph 41. We think the uncertainty of the reliability of the estimates of the useful life of goodwill and the pattern in which it diminishes questions whether reintroducing amortisation of goodwill would significantly improve the information provided to users.

45. Both models for the subsequent accounting for goodwill have limitations. No impairment test has been identified that can test goodwill directly and for amortisation it is difficult to estimate the useful life of goodwill and the pattern in which it diminishes. The evidence from stakeholders simply highlights these limitations.

Suggested disclosures are a better way to improve information

46. As noted in the Discussion Paper, in the IASB's view users need information to help them understand:

(a) the benefits that an entity's management expected from a business combination when agreeing the price to acquire a business; and

(b) the extent to which a business combination is meeting management's objectives.

47. Although an impairment-only model or an amortisation-based model can provide some information that would help meet these user needs (see paragraphs 21 and 25), this information is not perfect. For example, although the result of the impairment test of cash-generating units containing goodwill might provide a signal of whether a business combination is a success, the information is limited because of the effects of shielding and because the impairment test is not designed to provide such information. Likewise, an amortisation expense in the income statement could provide some information about the

subsequent performance of the business combination—whether the earnings after the amortisation expense provide a sufficient return on the investment—but this information could also be limited if the earnings associated with the business combination cannot be isolated and if the estimate of useful life of goodwill is not reliable.

48. We think the most appropriate way to improve the information about business combinations and meet these user needs directly—rather than indirectly through the subsequent accounting for goodwill—is through the package of disclosures the IASB discussed and made tentative decisions about in its September 2022 meeting. The package of disclosures would be compatible with either model for the subsequent accounting for goodwill.

Would an option to amortise goodwill improve information?

49. Because there are two divergent views which are unlikely to be reconciled (see paragraphs 13–33), we considered whether an approach that permits goodwill to be amortised or subject to an impairment-only model could significantly improve information. We think there are two possible versions of such an approach:

    (a) allow entities to make an accounting policy choice; or

    (b) require entities to determine whether goodwill arising in a business combination is predominantly a wasting asset or an asset with an indefinite life and apply an amortisation-based model or an impairment-only model accordingly (similar to the approach for other intangible assets in IAS 38 *Intangible Assets*).

50. Both of these approaches were suggested by a few respondents to the Discussion Paper. Agenda Paper 18D to the July 2021 IASB meeting reviewed these suggestions together with other suggestions respondents made and reported that the majority of these suggestions had been considered and previously rejected by the IASB and respondents had not provided any convincing arguments to change the IASB's views on these alternatives.

51. In considering the appropriate accounting for acquired goodwill after its initial recognition when amending IAS 36 in 2004 the IASB examined three approaches, one of which was permitting entities a choice between straight-line amortisation with an indicator-based impairment test or an impairment-only model with an annual impairment test. The IASB decided not to provide such an option on the basis that it would impair the usefulness of information because both comparability and reliability would be diminished (paragraphs BC131B–BC131C of the Basis for Conclusions on IAS 36).

52. In the July 2017 meeting of the Accounting Standards Advisory Forum (ASAF), the Accounting Standards Board of Japan presented a paper and suggested an option approach.[6] ASAF members generally did not support this approach mainly because it would impair comparability.

53. As discussed in paragraphs 13–48, we think there is not a compelling case for the IASB to explore reintroducing amortisation of goodwill to improve the information provided to users about business combinations. This conclusion also applies to introducing an option to amortise goodwill. Responses to the Discussion Paper and the ASAF discussion have not, in our view, provided compelling evidence to introduce an option.

54. We continue to agree with the IASB's 2004 conclusion. First, we think introducing an accounting policy choice (paragraph 49(a)) could result in significant costs for users in order to be able to compare different entities and we have doubts whether disclosures or presentation could fully mitigate these costs. Second, it is unlikely that information about the choice of accounting policy selected by different entities would be useful. This is because the choice would likely reflect stakeholders' diverse views or be driven by other factors, for example whether the amount of dividends entities can declare are reduced by amortisation expenses recognised in the income statement. Even if the problem of comparability could be addressed through disclosures or presentation,[7] we think, as explained in paragraphs 41–44, it is questionable whether permitting entities to amortise goodwill would significantly improve information.

55. The approach in paragraph 49(b) would require entities to make judgements about the different components of goodwill and the nature of goodwill. In order to ensure consistent application, the IASB would need to provide application guidance or list factors entities could use to make those judgements. We think it will be difficult to develop such guidance or factors that would ensure judgements entities make reflect relevant facts and circumstances rather than stakeholders' divergent views particularly because, as explained in paragraph 27, stakeholders can have different views of the same component of goodwill. Consequently, we think this approach is also unlikely to provide useful information.

56. Overall, we think:

(a) there is not a compelling case for the IASB to explore introducing an option to amortise goodwill; and

(b) due to the lack of comparability, an option would likely reduce rather than improve the usefulness of information. Even if the problem of comparability could be addressed through disclosures or

[6] An entity would be required to choose from either of the two models (an impairment-only model or an amortisation-based model) based on what the entity thinks is useful to discharge its accountability responsibilities as an accounting policy. The accounting policy would apply to all of the entity's business combinations. We think this is aligned to the option described in paragraph 49(a).
[7] This is difficult because an impairment test of an amortised asset is different to an impairment test of a non-amortised asset. For example, although in an amortisation-based model the amortisation expense could be reversed, a judgement would need to be made about whether an impairment may have occurred for the now higher value of goodwill.

presentation, we think, as explained in paragraphs 41–44, it is questionable whether permitting entities to amortise goodwill would significantly improve information.

Summary

57. In conclusion, we think there is not a compelling case to explore reintroducing amortisation of goodwill, either on its own or as an option, to improve the information provided to users about business combinations.

Reducing costs

58. As paragraphs 33–41 of Agenda Paper 18B explain, the IASB could reintroduce amortisation of goodwill for more practical reasons such as reducing costs and complexity associated with the subsequent accounting for goodwill because:

    (a) amortisation could take pressure off the impairment test and, at the end of the useful life of goodwill, an impairment test would no longer be required.

    (b) reintroducing amortisation could allow further simplifications to the impairment test.

59. In developing the *IFRS for SMEs* Accounting Standard the IASB concluded, for cost-benefit reasons rather than conceptual reasons, that goodwill should be amortised.

60. Some respondents to the Discussion Paper agreed that an amortisation-based model would take pressure off the impairment test and reduce costs. These respondents said amortisation was a practical solution because: it is less onerous; has less reliance on unobservable inputs; reduces the risk and probability of impairments; and reduces the cost of impairment tests (developing forecasts, documenting assumptions and compliance costs).

61. A few respondents disagreed, saying that an amortisation-based model would not significantly reduce costs because there would still be a need for an impairment test, entities would still have to produce business plans and forecasts which is most of the cost of performing the impairment test and there would be additional costs of estimating the useful life of goodwill.

62. As discussed in paragraphs 74–77 of Agenda Paper 18B, an objective of reintroducing amortisation of goodwill to reduce costs would influence decisions the IASB would make in designing the details of the amortisation-based model. We think a less costly amortisation-based model is likely to contain a default amortisation period, no reassessment of the amortisation period, a straight-line amortisation pattern and an indicator-based impairment test. Such a model is unlikely to provide useful information even to those users who prefer an amortisation-based model. This is because using a default amortisation period will provide no information about managements’ expectations of the period over which an entity expects to realise benefits represented by goodwill and will not reflect the economics of the business combination. Therefore, the only benefit of such an amortisation-based model would be to reduce cost.

63. We think important evidence on whether such a model would result in significant cost savings for entities was received from FASB members at the joint IASB–FASB meeting.

64. As summarised in Agenda Paper 18A to the September 2022 joint IASB–FASB meeting, the FASB had provided leanings that an entity:

 (a) should amortise goodwill on a straight-line basis;

 (b) can amortise goodwill over a 10-year default amortisation period or it can elect another amortisation period if that period can be justified based on acquisition facts and circumstances (subject to a cap of 25 years);

 (c) would not be permitted to reassess the amortisation period; and

 (d) should continue to test goodwill for impairment at the reporting unit level when indicators exist (minimum annual test requirement would be removed).

65. The FASB model has similarities to the model discussed in paragraph 62. However, several members of the FASB, in deciding to deprioritise and remove from their agenda the FASB project that considered the subsequent accounting for goodwill, questioned the magnitude of cost savings for entities. Some FASB members also highlighted that capital market participants may incur meaningful costs to understand the effect of such a significant accounting change. We think this evidence indicates there is some doubt about whether an amortisation-based model that includes features such as those listed in paragraph 62 would result in a significant reduction in costs.

66. There are also other costs of reintroducing amortisation of goodwill that need to be considered:

 (a) the costs of transition (paragraphs 67–70); and

 (b) the costs of diverging from US GAAP (paragraph 71).

Transition

67. Our research on the potential consequences of transitioning to an amortisation-based model is included in Agenda Paper 18B to the May 2022 IASB meeting. The feedback on transition cost was mixed.

68. Many respondents said transition would significantly affect entities' financial positions and performance because of the size of historic goodwill balances. One regulator group responding to the Discussion Paper said transitioning to an amortisation-based model could create additional costs, temporary disruption and could confuse users. Some of these effects could be significant and more prevalent for entities in particular jurisdictions. We note that:

 (a) respondents from Asia-Oceania said entities in their jurisdictions risk failing to meet listing requirements and, eventually, being suspended from trading or delisted if they report negative equity and/or profit; and

(b) respondents from Latin America said the amounts of dividends that entities in their jurisdictions could distribute would be affected.

69. However, many other respondents said the consequences of transition would be limited and manageable. Some respondents said the effects are not compelling enough to prevent the IASB from reintroducing amortisation of goodwill.

70. Although feedback is mixed, we think transition costs could be significant for some entities in some jurisdictions. We also agree with the regulator group that there could be costs in relation to the temporary disruption and confusion for users.

Convergence

71. Convergence between IFRS Accounting Standards and US GAAP on this topic is important, as highlighted by the International Organization of Securities Commissions (IOSCO)'s public statement in February 2021. Reintroducing amortisation of goodwill would result in divergence from US GAAP and such divergence could also result in additional costs for preparers and in particular for users. These are likely to be ongoing costs for stakeholders. Convergence is also an important aspect of the benefits and costs considered in the effects analysis for IFRS 3 (see paragraph BC436 of the Basis for Conclusions on IFRS 3).

Summary

72. If the objective of reintroducing amortisation of goodwill is to reduce costs, we think the model that would best suit this objective is unlikely to provide useful information (see paragraph 62). Therefore the only benefit of such an amortisation-based model would be to reduce cost. However, as discussed in paragraphs 58–65, there is doubt about how significant a reduction in costs for entities such a model would result in. There will also be additional one-off costs to transition to an amortisation-based model and ongoing costs due to divergence from US GAAP.

73. In conclusion, on balance, we think there is not a compelling case to explore reintroducing amortisation of goodwill to reduce costs and complexity associated with the subsequent accounting for goodwill.

Intangible Assets project

74. In the Third Agenda Consultation the IASB added to its research pipeline a project on Intangible Assets.[8] This project will aim to comprehensively review the accounting requirements for intangible assets. Initial research will seek to identify the scope of the project and how best to stage work on this topic to deliver timely improvements to IFRS Accounting Standards.

[8] Research pipeline projects are projects that the IASB expects to start work on before its next five-yearly agenda consultation.

75. During the October 2022 IASB meeting, some IASB members suggested deferring a decision on the subsequent accounting for goodwill because of possible interaction of that decision with the Intangible Assets project.

76. Those IASB members were concerned that any decision made in the Goodwill and Impairment project regarding the subsequent accounting for goodwill could prejudice some of the decisions that might be made in the Intangible Assets project. One IASB member was concerned that the IASB would not be able to later change a decision to reintroduce amortisation of goodwill even if decisions made in the Intangible Assets project suggested it would no longer be appropriate to amortise goodwill. For that IASB member deferring a decision on the subsequent accounting for goodwill makes sense because the IASB does not have compelling evidence to change now, but might do so as it works through the Intangible Assets project.

77. We think there is no need to defer the decision on the subsequent accounting for goodwill.

78. Following the PIR of IFRS 3, the IASB established the Goodwill and Impairment project to research the question of the subsequent accounting for goodwill, together with other topics included in this project. The IASB has considered its preliminary views on these topics as a package of views with a unifying objective—to explore whether an entity can, at a reasonable cost, provide users with more useful information about the business combinations those entities make—and in June 2021 the IASB tentatively decided to leave the objective of the project unchanged.

79. We continue to think that decisions in this project are best made considering the views as a package because of the interrelationships between the different topics, with some of the decisions helping to improve the information provided to users and some of the decisions helping to reduce costs and complexity.

80. Stakeholders spent considerable time and effort providing their views and evidence on the subsequent accounting for goodwill. We think the IASB should make a decision now, based on the extensive evidence gathered. It is likely to be a few years until the Intangible Assets project is added to the IASB's workplan and decisions on the scope of that project made. We think if the IASB were to defer a decision this could give the impression that goodwill and whether it should be amortised will be in scope of the Intangible Assets project. We think a decision in this project should not pre-determine the scope of the Intangible Assets project.

81. If the IASB decides, as part of this project, to retain the impairment-only model, we think this would not prejudice the Intangible Assets project. If there are changed circumstances as a result of decisions made in the Intangible Assets project, the IASB can—as it always can—reconsider any previous decisions. For example, as noted in paragraph BC131E of the Basis for Conclusions on IAS 36 (see paragraph 41(c)), the IASB was doubtful about the usefulness of an amortisation charge that reflects the consumption of acquired goodwill, when internally generated goodwill replacing it is not recognised. This was one of the reasons why the IASB concluded that amortisation would not provide useful

information and therefore why the impairment-only model was adopted. If the IASB were to decide to require entities to recognise internally generated goodwill as a result of the Intangible Assets project, then this changed set of circumstances could suggest reconsidering a decision in this project to retain the impairment only model at a later date.

82. If the IASB decides, as part of this project, to reintroduce amortisation of goodwill because, for example it concludes the impairment-only model is significantly flawed and amortisation of goodwill would significantly improve financial reporting,[9] we think the IASB should make that decision now. If, as an IASB member said (see paragraph 76), the IASB does not, at this stage, have compelling evidence to change, that is, in our view, sufficient to make a decision now to not explore reintroducing amortisation of goodwill and there is no need to defer the decision.

Summary

83. Based on the extensive evidence collected in this project, we think there is not a compelling case for change to justify exploring reintroducing amortisation of goodwill either to improve the information provided to users or to reduce costs and complexity. Therefore our recommendation is to proceed with the IASB's preliminary view in the Discussion Paper and retain the impairment-only model for the subsequent accounting for goodwill.

Question for the IASB
Do you agree with the staff recommendation in paragraph 83 to proceed with the IASB's preliminary view in the Discussion Paper and retain the impairment-only model for the subsequent accounting for goodwill?

84. If the IASB does not agree with the staff recommendation—that is, the IASB would like to explore developing an amortisation-based model—we think it is important that the IASB agree on the objective of the amortisation-based model that it wants to explore. As explained earlier, we think there are two objectives for exploring reintroducing amortisation of goodwill—improving information and reducing costs—and the models that best suit each of these objectives would differ.

Question for the IASB
Does the IASB want to explore developing an amortisation-based model with the objective of improving information for users (voting no to this question means the IASB wants to explore developing an amortisation-based model with the objective of reducing costs)?

[9] For the avoidance of doubt, we think that this is not the case.