
IASB[®] Meeting

Date	July 2023
Project	Business Combinations—Disclosures, Goodwill and Impairment
Topic	Cover paper
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Purpose and structure

1. In December 2022 the International Accounting Standards Board (IASB) added the Business Combinations—Disclosures, Goodwill and Impairment project to its standard-setting work plan. The project's objective is to provide users of financial statements with more useful information about the business combinations entities make, at a reasonable cost. To meet this objective, the IASB is considering:
 - (a) the disclosure requirements about business combinations; and
 - (b) the subsequent accounting for goodwill—in particular, potential changes to the impairment test of cash-generating units (CGUs) containing goodwill in IAS 36 *Impairment of Assets* (impairment test).
2. The Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* included the IASB's preliminary views.
3. The purpose of this meeting is to:
 - (a) Follow on from the IASB's discussions at its May 2023 meeting on suggestions from respondents to the Discussion Paper to improve the application and effectiveness of the impairment test. We ask the IASB to make

a tentative decision on which of those suggestions it wants to propose in an exposure draft.¹

- (b) Complete the IASB's discussions on its proposals to improve information entities disclose about business combinations.
4. This paper summarises:
- (a) Papers for this meeting (paragraphs 5–14);
 - (b) Next steps (paragraph 15); and
 - (c) Preliminary views, feedback and tentative decisions to date (Appendix).

Papers for this meeting

5. There are three papers for this meeting:
- (a) Agenda Paper 18A—Effectiveness of impairment test—analysis of suggestions;
 - (b) Agenda Paper 18B—Effectiveness of impairment test—suggestions from respondents; and
 - (c) Agenda Paper 18C—Disclosure requirements for specific types of entities.

Papers about the impairment test

6. During the Post-implementation Review of IFRS 3 *Business Combinations*, many stakeholders expressed concerns about the effectiveness of the impairment test. They said impairment losses on goodwill are often recognised too late, long after the events that caused those losses. Stakeholders asked the IASB to make the test more effective at recognising impairment losses on goodwill on a timelier basis.

¹ Following the Third Agenda Consultation, the IASB added to the maintenance project pipeline a narrow-scope project on Climate-related Risks in the Financial Statements. As part of that project, the IASB might consider whether and, if so, what narrow-scope actions might be needed to improve the application of IAS 36 in relation to such risks. Hence it is possible that IASB members might revisit the discussions in this project as part of the climate-related risks project and discuss further suggestions for improvements to the impairment test.

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7. As discussed in the Discussion Paper, the IASB identified two broad reasons for concerns about possible delays in recognising impairment losses on goodwill:
- (a) Management over-optimism—some stakeholders said management might sometimes be too optimistic in making assumptions for the cash flow forecasts needed to carry out the impairment test.
 - (b) Shielding—goodwill does not generate cash flows independently and therefore cannot be measured directly. The impairment test therefore focuses on testing a CGU, or a group of CGUs, containing goodwill. These typically contain headroom.² This headroom can shield acquired goodwill against the recognition of impairment losses.
8. The IASB considered the risk of over-optimism to be unavoidable, given the nature of the estimates required. IAS 36 contains requirements that reduce the risk that cash flow forecasts could be too optimistic. If estimates of cash flows are sometimes too optimistic, the IASB considered that this is best addressed by auditors and regulators, not by changing IFRS Accounting Standards.
9. To address shielding, the IASB considered whether it could design a different impairment test. In particular, the IASB considered an impairment test of CGUs containing goodwill in which at least a portion of any reduction in the recoverable amount of a CGU would be attributed to the acquired goodwill, rather than allocating it first to the unrecognised headroom (headroom approach).
10. However, consistent with its preliminary view, in [May 2023](#) the IASB tentatively decided that it is not feasible to design a different impairment test that is significantly more effective than the impairment test in IAS 36 at a reasonable cost.

² The headroom of a CGU is the amount by which its recoverable amount exceeds the carrying amount of its recognised net assets—including goodwill. Headroom in a CGU comprises unrecognised assets and liabilities within a CGU, such as internally generated goodwill, and unrecognised differences between the carrying amount of recognised assets and liabilities and their recoverable amounts.

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11. Although most respondents to the Discussion Paper commenting on the preliminary view in paragraph 10 agreed with that view, many suggested ways to improve the application, and hence the effectiveness of, the impairment test.
 12. These suggestions were reviewed using criteria to identify those suggestions that could be explored further as part of this project (see [Agenda Paper 18C](#) to the IASB's May 2023 meeting):
 - (a) the suggestion could mitigate either of the two main reasons the IASB identified for impairment losses on goodwill not being recognised on a timely basis—management over-optimism and shielding; and
 - (b) the suggestion could be implemented at a reasonable cost.
 13. Agenda Paper 18A provides our analysis of the feedback and our recommendations on which of the suggestions to improve the application and effectiveness of the impairment test the IASB should propose in an exposure draft.
 14. Feedback on the identified suggestions was obtained from the IASB's consultative groups and the IFRS Interpretations Committee and this feedback is summarised in Agenda Paper 18B. Agenda Paper 18B is a copy of [Agenda Paper 18D](#) to the IASB's May 2023 meeting with the exception of small administrative changes (for example, changes to the agenda reference and amendments to the cross references to agenda papers to the IASB's May 2023 meeting).

Next steps

15. In the coming months we plan to ask the IASB:
 - (a) to decide on transitional requirements for applying the proposals in the exposure draft; and
 - (b) whether the package of proposals meets the project objective and whether the IASB would like to publish an exposure draft setting out its proposals.

Appendix—Summary of preliminary views, feedback and tentative decisions

Topic	Summary of the IASB's preliminary view	Summary of feedback	Tentative decisions
Objective and scope	<p>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>	<p>See Agenda Paper 18A to the IASB'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 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.</p>	<p>June 2021</p> <p>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.</p> <p>December 2022</p> <p>The IASB decided not to consider additional topics suggested by respondents in this project, except for two topics related to possible improvements to the effectiveness of the impairment test of cash-generating units containing goodwill.</p>

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		<p>Paragraphs 34–45 of Agenda Paper 18E to the IASB's May 2021 meeting includes other topics respondents suggested the IASB consider within this project.</p>	
<p>Disclosure on the subsequent performance of business combinations</p>	<p>The IASB's preliminary view is that it should develop proposals to:</p> <ul style="list-style-type: none"> 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. b. add a requirement for companies to disclose in the year in which a business combination occurs, the metrics that 	<p>See Agenda Paper 18C to the IASB'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>	<p>October 2021</p> <p>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.</p> <p>September 2022</p> <p>The IASB tentatively decided to propose:</p>

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	<p>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.</p>	<p>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.</p>	<p>a. replacing the requirement in IFRS 3 for an entity to disclose the 'primary reasons for the business combination' in paragraph B64(d) of IFRS 3 with a requirement to disclose the 'strategic rationale for undertaking the business combination'.</p> <p>b. adding to IFRS 3 a requirement for an entity to disclose, for 'strategically important' business combinations, (i) information about management's objectives for a business combination and the metrics and targets management will use to monitor whether the objectives for the business combination are being met and (ii) actual performance in subsequent periods.</p> <p>c. providing an exemption in specific circumstances that would permit an entity not to disclose information about management's objectives for a business combination and the metrics and targets management will use to monitor whether the objectives for the business combination are being met.</p>

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			<p>January 2023</p> <p>The IASB tentatively decided on the design of the exemption.</p> <p>February 2023</p> <p>The IASB tentatively decided to:</p> <ul style="list-style-type: none"> a. identify the information the entity is required to disclose about the subsequent performance of business combinations using the key management personnel of the reporting entity, as defined in IAS 24 <i>Related Party Disclosures</i>; b. maintain its preliminary view that an entity be required to disclose information about the subsequent performance of a business combination for as long as the entity's management continues to monitor whether the objectives of the business combination are being met (subject to additional disclosure requirements when an entity's management is not or stops monitoring the performance of a business combination); and

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			c. clarify some details of the disclosure requirements, for example that an entity would be permitted to disclose information about its targets for a business combination as a range or a point estimate.
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.	<p>See Agenda Paper 18D to the IASB's April 2021 meeting.</p> <p>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.</p> <p>Respondents generally agreed with the IASB's preliminary views that it should</p>	<p>October 2021</p> <p>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.</p> <p>September 2022</p>

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		<p>add new disclosure objectives and a requirement to disclose debt and pension liabilities obtained in a business combination.</p>	<p>The IASB tentatively decided to propose adding the disclosure objectives described in the Discussion Paper to IFRS 3.</p>
<p>Improvements to existing IFRS 3 disclosure requirements</p>	<p>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.</p>	<p>There was mixed feedback on the IASB's preliminary views on information about the contribution of the acquired business.</p>	<p>October 2021</p> <p>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.</p> <p>November 2021</p> <p>The IASB tentatively decided:</p> <p>a. not to define 'synergies'.</p>

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			<p>b. not to make changes to its preliminary view as a result of feedback on other specific aspects of its preliminary view.</p> <p>For the purpose of testing staff examples the IASB decided that the examples should illustrate disclosure of information about:</p> <ul style="list-style-type: none"> 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). <p>September 2022</p> <p>The IASB tentatively decided to propose:</p> <ul style="list-style-type: none"> a. adding to IFRS 3 a requirement for an entity to disclose in the year of a business combination

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			<p>quantitative information about expected synergies; and</p> <p>b. providing an exemption from disclosing that information in specific circumstances.</p> <p>January 2023</p> <p>The IASB tentatively decided on the design of the exemption.</p> <p>The IASB also tentatively decided to require an entity:</p> <p>a. to disclose quantitative information about expected synergies by category (for example, total revenue synergies, total cost synergies and the total for each other type of synergy).</p> <p>b. to consider, for any case in which a disclosure of totals by category would qualify for an exemption, whether disclosure as a total for all categories could remove the reason for applying the exemption to the total by category.</p> <p>c. to describe the synergies by specifying each category of expected synergy.</p>

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			<p>d. to disclose when the benefits expected from the synergies are expected to start and how long they will last. This disclosure would require an entity to identify whether the synergies are expected to be finite or indefinite.</p>
Improvements to existing IFRS 3 disclosure requirements	<p>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 activities and defined benefit pension liabilities are major classes of liabilities.</p>		<p>November 2021</p> <p>The IASB tentatively decided to achieve the objective of its preliminary view by not specifying that these liabilities are major classes of liabilities but instead by proposing to amend:</p> <ul style="list-style-type: none"> 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	<p>The IASB's preliminary view is that it should retain the requirement for an entity to disclose information about the contribution</p>		<p>November 2021</p> <p>The IASB tentatively decided:</p>

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disclosure requirements	of the acquired business, with some amendments to the requirements.		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 flows arising from operating activities.
Improvements to existing IFRS 3 disclosure requirements	The IASB had no preliminary view on removing existing disclosure requirements. However, in the Discussion Paper the IASB noted that as a next step in this project, it	See Agenda Paper 18C to the IASB's March 2023 meeting.	March 2023 The IASB tentatively decided to remove from IFRS 3 requirements to disclose:

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	<p>intended to investigate whether to remove any of the disclosure requirements from IFRS 3 without depriving users of material information.</p>	<p>Respondents provided some suggestions for disclosure requirements in IFRS 3 that could be removed.</p>	<p>a. information about acquired receivables (paragraph B64(h));</p> <p>b. in the reconciliation between opening and closing goodwill balances, adjustments resulting from the subsequent recognition of deferred tax assets (paragraph B67(d)(iii)); and</p> <p>c. the amount and an explanation of any material gain or loss recognised in the current reporting period that relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or previous reporting period (paragraph B67(e)).</p>
<p>Effectiveness of the impairment test</p>	<p>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.</p>	<p>See Agenda Paper 18B to the IASB's May 2021 meeting.</p> <p>Most respondents commenting on the topic, 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</p>	<p>May 2023</p> <p>The IASB tentatively decided that it is not feasible to design a different impairment test that would, at a reasonable cost, be significantly more effective than the current requirements in IAS 36 for testing cash-generating units containing goodwill for impairment.</p>

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		<p>impairment test of cash-generating units containing goodwill in IAS 36 at a reasonable cost.</p>	
		<p>See Agenda Paper 18B to the IASB's May 2021 meeting.</p> <p>Many respondents to this preliminary view 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.</p>	<p>N/A</p>

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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 model but many other respondents disagreed with the IASB's preliminary view and instead advocated reintroducing amortisation of goodwill.	November 2022 The IASB tentatively decided to maintain its preliminary view to retain the impairment-only model for the subsequent accounting for goodwill.
Simplifying the impairment test	The IASB's preliminary view is that it should develop proposals to: <ol style="list-style-type: none"> a. 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 	See Agenda Paper 18D to the IASB's May 2021 meeting. Many respondents, including some preparers, did not support the IASB's preliminary view that it should implement an indicator-only impairment test for goodwill. However,	March 2023 The IASB tentatively decided to maintain its preliminary view to reduce cost and complexity, and to provide more useful and understandable information by simplifying the requirements for estimating value in use.

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	<p>there is no indication that an impairment may have occurred; and</p> <p>b. reduce cost and complexity, and to provide more useful and understandable information by simplifying the requirements for estimating value in use.</p>	<p>many of those who disagreed also said that the cost-benefit could be re-evaluated if the IASB decides to amortise goodwill.</p> <p>Respondents generally welcomed the IASB's preliminary views on simplifying and improving how value in use should be estimated.</p>	<p>May 2023</p> <p>The IASB tentatively decided:</p> <p>a. to retain the requirement to perform a quantitative impairment test annually; and</p> <p>b. not to pursue any of the alternatives to it that were suggested by respondents.</p>
Presenting total equity excluding goodwill	<p>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.</p>	<p>See Agenda Paper 18E to the IASB's May 2021 meeting.</p> <p>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</p>	<p>December 2022</p> <p>The IASB tentatively decided against proceeding with its preliminary view and therefore tentatively decided not to require an entity to present the amount of total equity excluding goodwill as a separate line item on its statement of financial position.</p>

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		<p>presenting that amount could cast doubt on whether goodwill is an asset.</p>	
<p>Intangible assets acquired in a business combination</p>	<p>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.</p>	<p>See Agenda Paper 18E to the IASB's May 2021 meeting.</p> <p>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.</p>	<p>December 2022</p> <p>The IASB tentatively decided to maintain its preliminary view and therefore to make no changes to the recognition criteria in IFRS 3 for identifiable intangible assets acquired in a business combination.</p>

- A1. In addition, we 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).