Staff paper

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Date	**May 2023**
Project	**Business Combinations—Disclosures, Goodwill and Impairment**
Topic	**Effectiveness of impairment test—suggestions from respondents**
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Purpose and structure

1. The purpose of this paper is to provide the International Accounting Standards Board (IASB) with a summary of feedback on suggestions provided by respondents to the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* of ways to improve the effectiveness of the impairment test of cash-generating units (CGUs) containing goodwill in IAS 36 *Impairment of Assets* (impairment test). We selected these suggestions on the basis of the criteria discussed in Agenda Paper 18C. As discussed in Agenda Paper 18, we are not asking the IASB to make any decisions on these suggestions at this meeting.

2. The paper is structured as follows:

   (a) Background (paragraph 3); and

   (b) Feedback (paragraphs 4–74), including:

      (i) Suggestions that could reduce shielding (paragraphs 5–36); and

      (ii) Suggestions that could reduce management over-optimism (paragraphs 37–74).

Background

3. As discussed in Agenda Paper 18C, we obtained feedback from members of the IASB's consultative groups and the IFRS Interpretations Committee (Committee) on suggestions that:

   (a) could mitigate either of the two main reasons that the IASB identified for impairment losses on goodwill not being recognised on a timely basis—management over-optimism and shielding; and

   (b) can be implemented at a reasonable cost.

Feedback

4. We organised the suggestions and feedback into the following sub-topics:

   (a) Suggestions that could reduce shielding (paragraphs 5–36); and

   (b) Suggestions that could reduce management over-optimism (paragraphs 37–74).

Suggestions that could reduce shielding

5. To help reduce shielding we investigated the following suggestions put forward by respondents to the Discussion Paper:

   (a) Provide additional guidance on how goodwill is allocated to CGUs (paragraphs 6–24); and

   (b) Require an entity to perform an impairment test when it reorganises its reporting structure in a way that changes the composition of one or more CGUs to which goodwill has been allocated (paragraphs 25–36).

Additional guidance on how goodwill is allocated to CGUs

6. In developing its preliminary views, the IASB considered:

   (a) whether to allow an entity to test goodwill for impairment at the entity level or the level of reportable segments; and

   (b) whether to provide additional guidance on identifying CGUs and on allocating goodwill to CGUs.

7. The IASB's preliminary views were that it should not develop such guidance because:

   (a) testing goodwill at a higher level could delay further the recognition of impairment losses of goodwill by increasing the effect of shielding; and

   (b) it would be difficult to provide guidance that could apply to all entities.

8. Many respondents to the Discussion Paper provided feedback on allowing an entity to test goodwill at a higher level for the purpose of the impairment test. Most respondents who commented agreed with the IASB's rationale for its preliminary view on this matter. A few preparers disagreed because entities generally manage the business by reportable segment rather than by CGU, meaning that budgets/forecasts are prepared for each CGU only for the purpose of the impairment test and therefore this simplification could significantly reduce the burden for preparers.

9. Many respondents to the Discussion Paper agreed with the IASB's preliminary view not to provide additional guidance on identifying CGUs and allocating goodwill to CGUs. However, many disagreed and suggested providing guidance on how to allocate (and reallocate) goodwill to CGUs and reconsidering the level at which the test is performed.

10. As explained in Agenda Paper 18C, we selected the following suggestions relating to the allocation of goodwill to CGUs to obtain further feedback on:

    (a) Amending the requirements in paragraph 80 of IAS 36 to clarify (paragraphs 11–20):

        (i) the meaning of the expression 'goodwill is monitored for internal management purposes' used in paragraph 80(a) of IAS 36 or to replace it with another term; and

        (ii) the requirement in paragraph 80(b) of IAS 36 that the group of CGUs to which goodwill is allocated is not larger than an operating segment (as defined by paragraph 5 of IFRS 8 *Operating Segments*) is intended to be a safeguard; and

    (b) Link the level goodwill is tested for impairment with the level the business combination associated with the goodwill is monitored for the proposed disclosures about the subsequent performance of business combinations (paragraphs 21–24).[1]

Clarify the requirements in paragraph 80 of IAS 36

11. Paragraph 80 of IAS 36 requires, for the purpose of impairment testing, acquired goodwill to be allocated to each of the acquirer's CGUs or groups of CGUs and that:

> […] each unit or group of units to which the goodwill is so allocated shall:
>
> (a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
>
> (b) not be larger than an operating segment as defined by paragraph 5 of IFRS 8 […] before aggregation.

[1] See paragraph 21 and Agenda Paper 18B to the IASB's September 2022 meeting.

12. Many respondents to the Discussion Paper said because of a lack of clarity of this paragraph, entities often allocate and test goodwill for impairment at the operating segment level. In particular, those respondents said the requirement to allocate goodwill at the lowest level within the entity at which goodwill is monitored for internal management purposes is not clear or well understood. For example, an entity's management often does not monitor goodwill but instead monitors the overall business and in these situations entities default to testing goodwill for impairment at the operating segment level.

13. A few respondents suggested replacing 'goodwill is monitored' with 'the acquired business is monitored' and a few respondents suggested clarifying what 'monitoring' means. A few respondents suggested removing the reference to operating segments.

14. The reference to operating segment in paragraph 80(b) could be clarified to explain that this is not a default but a safeguard to prevent goodwill being tested at too high a level. Paragraph BC146 of the Basis for Conclusions on IAS 36 explains the IASB's conclusion that requiring goodwill to be allocated to at least the operating segment is necessary to avoid entities erroneously concluding that, when a business combination enhances the value of all of the acquirer's pre-existing CGUs, any goodwill acquired in that combination could be tested for impairment only at the level of the entity itself.

15. We asked members of the IASB's consultative groups and the Committee whether the suggestions would help improve the application of the impairment test.

16. Some national standard-setters reported that many entities in their jurisdictions allocate goodwill for impairment testing purposes to operating segments as a default, rather than considering the reference to operating segment as a safeguard.

17. Many national standard-setters and some preparers said it would be helpful to clarify what monitoring means or reword the requirement in IAS 36 to 'monitoring the business associated with the goodwill'. One regulator said allocation of goodwill is the key issue to address in order to reduce shielding and improve the effectiveness of the impairment test. That regulator said the notion of monitoring is difficult to

understand and to enforce and consequently additional guidance would be helpful. They said clarifying the role of expected synergies from a business combination in this process should also be considered.

18. However, some other stakeholders expressed reservations and said:

    (a) without additional guidance on the allocation of goodwill to CGUs, the clarifications, although beneficial, would have limited effect on reducing shielding (two auditors);

    (b) it would be difficult to define monitoring because of the complexity of combining businesses (a few preparers);

    (c) the operating segment is the level at which an acquisition is generally contemplated and allocating goodwill to a lower level could be arbitrary (one preparer and one auditor);

    (d) in some circumstances the operating segment level might be a helpful level to allocate goodwill for impairment testing purposes, especially because it is consistent with other information available from segment disclosures (one preparer);

    (e) some might understand the business associated with goodwill to be the acquired business and the acquired business is often integrated and therefore may not be separately monitored (one regulator); and

    (f) the requirements in IAS 36 are clear and the asserted lack of clarity might be more of an application issue (one preparer).

19. Users of financial statements (users) did not comment on this suggestion.

20. National standard-setters provided other suggestions to consider:

    (a) requiring an entity to allocate goodwill for impairment testing at a lower level than an operating segment, similar to that required in US generally accepted accounting principles (US GAAP).

(b) addressing that many entities consider management for the purposes of the impairment test to be an entity's chief operating decision maker which, in their view, results in the impairment test being performed at the operating segment level.

(c) providing additional guidance on the initial allocation of goodwill to CGUs on acquisition.

Link the level goodwill is tested for impairment with the level the business combination is monitored

21. In September 2022 the IASB tentatively decided to maintain its preliminary view to require an entity to disclose information about:

(a) management's objectives for the business combination;

(b) the metrics and targets management will use to monitor whether those objectives are being met; and

(c) in subsequent periods, the extent to which management's objectives are being met, using those metrics, for as long as management monitors the business combination against its objectives.

22. Some respondents to the Discussion Paper suggested linking the level management monitors the business combination when applying the preliminary views on disclosures about the subsequent performance of business combinations to the requirements in paragraph 80 of IAS 36.[2]

23. We asked members of the IASB's consultative groups and the Committee whether:

(a) the level goodwill should be tested for impairment could be different to the level management monitors the business combination; and

[2] The IASB's preliminary view was to identify the level of management for those disclosures as the entity's Chief Operating Decision Maker, as described in IFRS 8. In February 2023 the IASB tentatively decided to describe the level of management as the key management personnel of the reporting entity, as defined in IAS 24 *Related Party Disclosures*.

(b) to prohibit goodwill being tested for impairment at a level higher than the level an entity monitors whether a business combination is achieving management's objectives and targets for that business combination.

24. Stakeholders had mixed views on this suggestion:

(a) Some preparers agreed it might be helpful to link the level at which goodwill is tested for impairment to the level management monitors the business combinations for disclosure purposes.

(b) One national standard-setter agreed that an entity should be explicitly prohibited from testing goodwill at a level higher than the level the related business combination is monitored.

(c) One national standard-setter and one auditor said it would not be helpful to link these two requirements. This is because the requirement to disclose information about the subsequent performance of business combinations would be for only a limited time, but goodwill is required to be tested for impairment for as long as it is recognised on the balance sheet.

(d) One preparer from a European preparer group that we also discussed the suggestions with, cautioned linking the level at which goodwill is tested for impairment with the level at which a business combination is monitored—the acquired business is often not monitored on its own, rather the combined business is monitored, and in their view this could lead to testing at a higher level than a CGU.

Perform impairment test when goodwill is reallocated

25. Paragraph 87 of IAS 36 requires that when an entity reorganises its reporting structure in a way that changes the composition of CGUs to which goodwill has been allocated, the entity reallocate goodwill to the affected CGUs on the basis of their relative values unless another method better reflects goodwill associated with the reorganised CGUs.

26. A few respondents to the Discussion Paper said entities might opportunistically reallocate goodwill to avoid impairments of goodwill. We understood from feedback to the Discussion Paper that, for example, an entity may decide:

    (a) to reallocate an operation with weak performance from a CGU that has a large amount of goodwill; or

    (b) to merge different CGUs to shield goodwill of one CGU from impairment losses with internally generated goodwill of another CGU.

27. One respondent suggested requiring an entity to perform an impairment test based on the previous reporting structure when such a reorganisation occurs. They said this could help limit opportunistic behaviour to avoid recognising impairment losses.

28. We asked members of the IASB’s consultative groups and the Committee whether:

    (a) entities would be able to perform this test—would cash flow forecasts be available for the previous reporting structure; would entities incur significant incremental costs?

    (b) conceptually, should an impairment loss be recognised based on the ‘old’ reporting structure and would this provide useful information?

29. There were mixed views. Some preparers and users, one regulator and one national standard-setter agreed with this suggestion and said it might reduce shielding and limit opportunistic behaviour.

30. However, some other stakeholders questioned whether this suggestion would help reduce shielding. Some users were uncertain whether this situation was common. A few preparers said reallocations are scrutinised by auditors and another preparer said the impairment test would be theoretical because management would no longer be responsible for forecasts based on the ‘old’ reporting structure.

31. Stakeholders also commented on whether entities would be able to perform this test and on whether information needed would be available. A few preparers and one auditor said it would not be too costly and entities would be able to perform the test.

One national standard-setter said, because reallocation is performed using a relative value approach, entities should have enough information to perform the impairment test based on an 'old' reporting structure.

32. However, some preparers and one national standard-setter said the test would be costly and complex. One preparer and one national standard-setter said it might be difficult to obtain cash flows forecasts for CGUs based on an 'old' reporting structure. One preparer suggested allowing entities to perform a simplified impairment test.

33. Some national standard-setters, one preparer and one auditor questioned whether conceptually, an impairment loss should be recognised based on the 'old' reporting structure. The national standard-setters said testing a CGU based on the 'old' reporting structure would be inconsistent with the requirement to perform the impairment test on an asset in its current condition (as paragraph 44 of IAS 36 requires). One national standard-setter said impairment tests should be based on reasonable and supportable assumptions and questioned whether forecasts based on an 'old' reporting structure could be reasonable and supportable. One preparer said if the reorganisation is intended to achieve better financial results, there is a question whether testing for impairment based on the 'old' reporting structure is appropriate.

34. However, a few other stakeholders disagreed and said:

   (a) if an event has led to a reorganisation, recognising an impairment loss could be appropriate (one preparer).

   (b) not recognising a loss on a reorganisation would conceptually be equivalent to reversing an impairment loss on goodwill which is prohibited (one auditor).

35. Many auditors and some national standard-setters said a reorganisation of the reporting structure could often be considered an indicator of impairment and one national standard-setter said entities often perform an impairment test based on the 'old' reporting structure on reorganisation. One preparer suggested considering a reorganisation to be an indicator of impairment, rather than something that triggered an automatic impairment test, and thereby allowing entities to make a judgement

about the appropriateness of recognising an impairment loss based on the circumstances.

36. Other comments made included:

(a) one user suggested an entity should be required to disclose if there has been a material change in the allocation of goodwill.

(b) some preparers and one user said opportunistic reallocations of goodwill could also be made to trigger impairment losses and thereby reduce goodwill balances.

Suggestions that could reduce management over-optimism

37. The IASB's view in the Discussion Paper was that if estimates of cash flows used to measure value in use are too optimistic, this is best addressed by auditors and regulators. Many accounting firms and regulators and some national standard-setters and accounting bodies responding to the Discussion Paper disagreed. Some respondents suggested possible amendments that, in their view, would help reduce management over-optimism. We discussed the following suggestions with members of the IASB's consultative groups and the Committee:

(a) requiring an entity to disclose a comparison of cash flow forecasts used in past impairment tests with actual cash flows (paragraphs 38–50);

(b) clarifying the requirement in paragraph 33 of IAS 36 to explain that cash flow projections based on the most recent financial budgets/forecasts need to be based on reasonable and supportable assumptions (paragraphs 51–55);

(c) improving the list of indicators of impairment set out in paragraph 12 of IAS 36 (paragraphs 56–64); and

(d) requiring an entity to disclose the reportable segment in which CGUs containing goodwill are included (paragraphs 65–74).

Comparison of past cash flow forecasts

38. Some respondents to the Discussion Paper suggested requiring an entity to disclose a comparison of the cash flow forecast used in past impairment tests with actual cash flows for a specified number of prior periods. These respondents said this comparison would enable users to assess how accurate an entity's management is in estimating those cash flow forecasts. This should in turn, add discipline, deter over-optimistic forecasts and help identify entities that are consistently over-optimistic when developing forecasts.

39. The IASB considered a similar idea in the Exposure Draft of Proposed Amendments to IAS 36 and IAS 38 *Intangible Assets* in 2002.[3] One of the reasons the IASB rejected this idea was because of cost concerns. Although the IASB considered such an approach from the perspective of designing a different impairment test and not from a disclosure perspective, the process and costs involved in disclosing the information should not significantly differ.

40. We asked members of the IASB's consultative groups and the Committee:

    (a) Whether such disclosure would help reduce management over-optimism, given differences between the forecasts and actual cash flows could be due to facts and circumstances beyond management's control.

    (b) Whether entities would incur significant incremental costs if required to disclose this comparison, given paragraph 34 of IAS 36 already requires management to assess the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows.

    (c) For how long this comparison should be disclosed, given that a short time period might not provide sufficient information about the accuracy of cash flow forecasts. This is because shorter time-frames might be more likely to be

[3] See paragraphs 31–32 of Agenda Paper 18B for more details of the subsequent cash flow test considered by the IASB.

distorted by timing differences and it's generally forecasts for later periods that might be subject to greater uncertainty and management over-optimism. However, the longer the period that is required, the more costly it is likely to be.

Usefulness

41. Most preparers, most auditors, many national standard-setters and some users raised concerns on the usefulness of the comparison and questioned whether it would provide useful information that would help reduce management over-optimism. In particular, stakeholders said:

(a) Missing a forecast would not necessarily indicate that management was over-optimistic given forecasts are inherently judgmental and can be affected by events outside management’s control (for example, inflation, commodity prices and other market factors).

(b) Cash flows are not the only input into the impairment test and where the cash flows do not adequately capture risk, risk is factored into the discount rate. Without further information on the discount rates used, it would be difficult to assess whether management have appropriately reflected risks in the impairment test.

(c) If the size and the scope of CGUs change over time due to, for example, acquisitions and disposals, information about past forecasts for those CGUs might not be useful for reducing management over-optimism.

(d) Past performance does not necessarily correlate to the ability to predict future performance and accuracy in the short-term might be irrelevant because longer-term factors or terminal value assumptions tend to be the drivers of impairment.

(e) One preparer said users would find the comparison useful but not for the purpose of reducing over-optimism and one user confirmed that this information would be used for other purposes.

42. Many preparers, auditors and national standard-setters also said the suggested change is unnecessary because:

    (a) IAS 36 requires an entity to use reasonable and supportable assumptions which helps make cash flow forecasts disciplined and rigorous.

    (b) paragraph 34 of IAS 36 requires management to assess the reasonableness of assumptions used in cash flow forecasts by examining the differences between past cash flow forecasts and actual cash flows.

    (c) requirements in IAS 36 to disclose key assumptions and sensitivity analysis for those key assumptions mean market participants already have information to challenge management over-optimism.

    (d) paragraph 134(d)(ii) of IAS 36 requires an entity to disclose information about the values management assigns to key assumptions and whether those value(s) reflect past experience, and, if not, how and why they differ.

    (e) comparing past forecasts to actual performance is an audit procedure and an enforcement question and is not information that should be disclosed in financial statements.

43. However, many users, many national standard-setters (reporting feedback from some stakeholders in their jurisdictions), many regulators, one preparer and one auditor disagreed and said a comparison would be useful to help reduce management over-optimism because it would show whether entities were meeting their forecasts, and would give insight into whether management historically have been over-optimistic.

44. One user said they did not expect the forecasts from prior periods and actual cash flows to match, but expected any differences to be ‘normally’ or systematically distributed. Consequently, the comparison would identify if management is always over-optimistic. One user said it is management’s job to make decisions in highly uncertain environments. The user said the disclosure would help users assess management’s ability to make those decisions and improve accountability of corporate boards. One user said the suggested disclosure would provide users a

chance to ask management about situations in which the entity did not record an impairment.

45. One auditor said this disclosure could help deter management over-optimism because management would try to avoid large differences and said it could also help enforcement. One regulator said 'back-testing' of entities' expected credit loss estimates applying IFRS 9 *Financial Instruments* is a powerful tool to produce more reasonable estimates. Another regulator, although reassured that preparers and auditors say this comparison is being done internally, noted that IAS 36 and the impairment test always feature in enforcement priorities.

Cost of disclosing this comparison

46. Many preparers, many national standard-setters, many auditors and some users expressed concerns about the cost of disclosing this comparison, for example:

    (a) Preparing and auditing this comparison would require additional resources. One preparer said actual cash flow information for CGUs is not specifically reported in their accounting system and some cash flows would need to be allocated.

    (b) The quantitative comparison on its own would not be useful and entities would be compelled to disclose qualitative information to explain any variances.

    (c) Disclosing the comparison could result in the disclosure of commercially sensitive information and could expose the entity to litigation risk. One preparer said that although the information is only about past cash flow forecasts, litigation risk would increase because of the hindsight the forecasts would provide. This could result in management being accused of causing investor losses by not reacting appropriately to particular circumstances. The commentary that entities would most likely need to provide could also be commercially sensitive.

47. Some preparers also raised practical concerns. For example, they asked whether a comparison would be required for all CGUs to which goodwill is allocated, in

particular in situations there is so much headroom that any reasonable change in assumptions is unlikely to trigger an impairment. They also asked what would happen when an entity reorganises its reporting structure and reallocates goodwill.

48. However, some stakeholders said the cost of disclosing this comparison should be low. Some users questioned how providing this information could be costly and one user questioned what the basis of litigation would be. They said the information would be about past forecasts and the suggestion would not require an entity to disclose forward-looking information.

49. Some national standard-setters and one auditor said the cost should be low because paragraph 34 of IAS 36 already requires management to assess the accuracy of past forecasts.

How long this comparison should be disclosed for

50. Some stakeholders provided feedback on how long the comparison should be disclosed, with three to five years commonly mentioned. In particular:

(a) Some users suggested between three and five years. One user said the number of years for which the information would be useful might vary by sector. For example, three years might suffice for a non-cyclical industry such as consumer goods or healthcare, but for cyclical industries such as mining, a longer period would be better.

(b) One national standard-setter said stakeholders in their jurisdiction had mixed views—stakeholders suggested, two years, three years, three years or more and three to five years.

(c) One auditor said a meaningful period would be four to five years, however, if the IASB decides to remove the requirement to perform a quantitative impairment test of CGUs containing goodwill annually, history of previous estimates may not be available.

Reasonable and supportable assumptions

51. A few respondents suggested providing more guidance on the requirements in paragraph 33 of IAS 36. In particular, a few respondents suggested providing additional guidance on the interaction between the requirements in paragraph 33 to base cash flow forecasts on (a) 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, with greater weight given to external evidence; and (b) the most recent budgets/forecasts approved by management. They said budgets or forecasts approved by management may be over-optimistic because they are also used to incentivise management. A few respondents suggested more emphasis be put on the requirement for reasonable and supportable assumptions.

52. It could be clarified that the requirements in paragraph 33 do not conflict and cash flow projections based on the most recent financial budgets/forecasts approved by management need to be based on reasonable and supportable assumptions.

53. We asked members of the IASB's consultative groups and the Committee whether additional guidance or illustrative examples on the application of paragraph 33 could help the application and enforcement of that paragraph and thereby help deter management over-optimism.

54. Stakeholders expressed mixed views:

    (a) Some national standard-setters and one preparer said these requirements do not conflict, whereas some national standard-setters said they do conflict.

    (b) Many preparers, many national standard-setters and one auditor provided reasons additional guidance would have limited benefit in helping to deter management over-optimism. In particular:

        (i) Some preparers said existing requirements are clear and there is no need to make any changes—for example, one preparer said that management's budgets/forecasts are adjusted, when necessary, to make them appropriate for the impairment test.

(ii) One auditor said IAS 36 already requires giving more weight to external evidence and consistency of assumptions used is scrutinised and challenged by auditors.

(iii) One national standard-setter questioned whether such guidance could be developed. Some national standard-setters said the interaction of these two requirements is more of an enforcement or governance issue.

(c) Some preparers, some national standard-setters, two auditors and one regulator said additional guidance and clarification could be helpful. One national standard-setter suggested considering the guidance on reasonable and supportable cash flows in IFRS 9. One preparer said additional guidance might help smaller entities.

(d) Users raised no concerns about this suggestion.

55. A few stakeholders (some national standard-setters and one regulator) suggested providing additional guidance to clarify:

(a) how to capture uncertainty in cash flows;

(b) how to reflect less optimistic scenarios;

(c) how to reflect different risks in the discount rate;

(d) the interaction between the cash flow forecasts and discount rates used, because if the cash flow forecasts are over-optimistic this might be adjusted for in the discount rate; and

(e) assumptions used should be consistent with other assumptions used in the impairment test.[4]

Indicators of impairment

56. As discussed in Agenda Paper 18, one of the IASB's preliminary views in the Discussion Paper was to remove from IAS 36 the requirement for an entity to perform

[4] Some of these suggestions are similar to those in the Appendix of Agenda Paper 18C (see paragraphs 28–29 of that paper).

an annual quantitative impairment test for CGUs containing goodwill if there is no indication that the CGU may be impaired. Feedback and analysis on this preliminary view is included in Agenda Paper 18A. Paragraph 4.34 of the Discussion Paper explains that the IASB planned to assess whether it needs to update the list of indicators in paragraph 12 of IAS 36.

57. Some respondents to the Discussion Paper suggested reviewing this list of impairment indicators and said the indicators listed could contribute to the delay in recognising impairment losses on goodwill. Some respondents said including a robust list of impairment indicators may help reduce management over-optimism in the impairment indicator assessment.

58. The IASB could review the list regardless of whether it decides to provide relief from the mandatory annual quantitative impairment test.

59. The IASB could consider the following suggestions:

(a) develop a list of indicators that specifically apply to goodwill;

(b) develop a list of indicators that should exist to presume goodwill is not impaired;

(c) give more prominence to internal indicators over external indicators; and

(d) include disclosure of the failure to achieve an objective or target for a business combination (as would be required applying the proposed new disclosure requirements) as an indicator of impairment.

60. We asked members of the IASB's consultative groups and the Committee whether the IASB should explore improving the list of impairment indicators and whether their answers depend on the IASB's decision on whether to remove the requirement to perform a quantitative impairment test of CGUs containing goodwill annually.

61. Many stakeholders (including some users) said there is little need to amend the list, regardless of the decision on whether to remove the requirement to perform a quantitative impairment test of CGUs containing goodwill annually. In their view,

updating the list would have a limited effect on reducing management over-optimism. In particular, some national standard-setters said the list is non-exhaustive and adding to the list might result in entities using it as a checklist.

62. Some preparers said they would still perform an annual quantitative test even if the IASB removed the requirement to do so. In their view, performing the test is easier than assessing whether there is an impairment indicator. One preparer said the group of CGUs in which goodwill is tested for impairment is typically large, making it harder to identify impairment indicators.

63. A few stakeholders said the list of impairment indicators should be improved regardless of the IASB's decision on whether to remove the requirement to perform a quantitative impairment test of CGUs containing goodwill annually.

   (a) One national standard-setter and one regulator suggested including a list of indicators specific to goodwill. This national standard-setter also said internal indicators should be given more prominence.

   (b) One auditor said failure to meet the key objectives of the business combination should be added as an indicator and another auditor suggested adding a general indicator that if the carrying value is reasonably expected to exceed the recoverable amount, an entity should be required to perform an impairment test.

64. Two auditors and one user said if the IASB decides to remove the requirement to perform a quantitative impairment test of CGUs containing goodwill annually, a more robust list of indicators would be needed.

Segments to which goodwill is allocated

65. Respondents provided feedback on topics not explored in the Discussion Paper (see Agenda Paper 18D to the IASB's December 2022 meeting). This included a suggestion to require an entity to disclose the allocation of goodwill to different segments.

66. As explained in Agenda Paper 18D to the IASB's December 2022 meeting, we thought this information might provide better visibility as to how goodwill is tested for impairment and allow users to use segment information to assess the reasonableness of assumptions used in the impairment test.

67. Paragraph 134(a) of IAS 36 requires an entity to disclose the carrying amount of goodwill allocated to CGUs (in situations in which the carrying amount of goodwill allocated to a CGU is significant in comparison with total goodwill). An entity could be required to disclose in which reportable segments the CGUs containing goodwill are included. However, the usefulness of this information might depend on the size of the CGUs containing goodwill relative to the size of the reportable segment.

68. We asked members of the IASB's consultative groups and the Committee whether this suggestion would help deter management over-optimism and, in particular, whether:

    (a) impairment assumptions and segment information can be compared;

    (b) entities would incur significant incremental costs if required to disclose this information; and

    (c) the information would help users better assess the reasonableness of the assumptions used in impairment tests.

69. Stakeholders expressed mixed views.

70. Many users agreed with the suggestion because the information:

    (a) would help users understand whether assumptions used are reasonable;

    (b) might help users learn more about how goodwill might be shielded in order to avoid recognising an impairment on goodwill; and

    (c) would facilitate conversations with management about why an impairment loss has not been recognised.

71. One preparer said impairment assumptions should be comparable with segment information and also said information about the reportable segment to which goodwill is allocated would be most beneficial for diversified entities.

72. Two auditors said the information would be useful however, its usefulness depends on whether the CGUs goodwill is allocated to for impairment testing purposes are a significant part of the segment. One regulator said this suggestion would be useful and it would more closely align IFRS Accounting Standards with US GAAP.[5]

73. On the other hand, most national standard-setters who commented suggested not pursuing this idea. Some national standard-setters questioned whether this information would be useful. Some national standard-setters said segment information is not comparable to information about CGUs.

74. Regarding the cost of disclosing this information, some preparers said they already disclose this information (one national standard-setter also said they see this information being disclosed) or that this would be easy to disclose. Two auditors and some national standard-setters said the cost of disclosing this information should be low.

Question for the IASB
Does the IASB have any comments or questions?

[5] US GAAP requires an entity to disclose the changes in the carrying amount of goodwill during the reporting period in total and for each reportable segment, for entities that report segment information.