
IASB[®] Meeting

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Project	Business Combinations—Disclosures, Goodwill and Impairment
Topic	Allocating goodwill to CGUs
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Purpose and structure

1. As Agenda Paper 18 explains, this paper:
 - (a) analyses feedback on the Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment* ([Exposure Draft](#)) proposal to make targeted changes to IAS 36 *Impairment of Assets* to improve how entities allocate goodwill to cash-generating units (CGUs); and
 - (b) asks the International Accounting Standards Boards (IASB) if it agrees with our recommendation to retain the proposal with some wording changes.
2. This paper is structured as follows:
 - (a) background (paragraphs 3–8);
 - (b) key messages from Exposure Draft feedback (paragraph 9);
 - (c) staff analysis (paragraphs 10–59);
 - (d) summary of staff recommendations (paragraphs 60–61);
 - (e) question for the IASB;
 - (f) Appendix A—Requests for clarifications, guidance or examples; and
 - (g) Appendix B—Excerpts of the proposed amendments to IAS 36.

Background

3. Through its post-implementation review of IFRS 3 *Business Combinations* and subsequently, the IASB was informed that the impairment test is complex, time-consuming and expensive and that impairment losses are sometimes recognised too late. As paragraph BC188 of the Basis for Conclusions on the [Exposure Draft \(Basis for Conclusions\)](#) explains, the IASB identified management over-optimism and shielding as the two broad reasons for stakeholder concerns about possible delays in recognising impairment losses on goodwill.
4. As paragraph BC190 of the [Basis for Conclusions](#) explains, in developing the Exposure Draft the IASB considered whether it could design a different impairment test from the one in IAS 36 that would be significantly more effective at recognising impairment losses on goodwill at a reasonable cost, but concluded it was not feasible to do so. Instead the Exposure Draft proposed (and the [IASB decided in the February 2025 meeting](#)) to consider only targeted improvements to help mitigate management over-optimism and shielding.
5. One of these targeted improvements was to clarify paragraph 80 of IAS 36 (reproduced in paragraph A1 of Appendix A), which contains requirements for allocating goodwill¹ to CGUs² for impairment testing. In developing the [Exposure Draft](#), the IASB heard that entities might not always apply paragraph 80 of IAS 36 as intended. For example, feedback suggested entities might allocate goodwill to operating segments as a default and management might not specifically monitor goodwill.
6. The IASB concluded it would not be possible to provide comprehensive guidance on allocating goodwill to CGUs. However, the IASB proposed some targeted changes to paragraph 80 of IAS 36 to improve those requirements, which in turn could help

¹ References to 'goodwill allocation' or 'allocation of goodwill' throughout the rest of this paper refers to allocating goodwill to CGUs or groups of CGUs for impairment testing purposes.

² Paragraph 80 of IAS 36 requires an entity to allocate goodwill to each of the acquirer's cash-generating units, or groups of cash-generating units. For simplicity, we use 'CGUs' to refer to individual CGUs or groups of CGUs.

reduce shielding.³ In particular, as paragraph BC199 of the [Basis for Conclusions](#) explains, the IASB proposed:

- (a) to replace the phrase ‘goodwill is monitored’ in paragraph 80(a) of IAS 36 with ‘business associated with the goodwill is monitored’.
 - (b) to clarify that an entity is required first to apply paragraph 80(a) of IAS 36 and determine the lowest level at which the business associated with the goodwill is monitored for internal management purposes and only then apply paragraph 80(b) of IAS 36, which acts as a ceiling to the level that the entity determines applying proposed paragraph 80(a). This clarification would help to avoid an entity applying paragraph 80(b) as a default.
 - (c) to provide limited guidance on what ‘monitoring the business associated with the goodwill’ means. This guidance would help an entity allocate goodwill to a level consistent with how it reports internally and manages its operations, which is the intent of IAS 36.
 - (d) to clarify that IAS 36 requires an entity to allocate goodwill to groups of CGUs (if goodwill cannot be allocated to individual CGUs on a non-arbitrary basis) because goodwill arises in a business combination and a business sometimes comprises groups of CGUs.
7. Appendix B reproduces excerpts from the [Exposure Draft](#) relevant to this proposal. Paragraphs BC194–BC201 of the [Basis for Conclusions](#) explain the IASB’s rationale for this proposal.
8. [Agenda Paper 18C](#) for the IASB’s January 2025 meeting (January agenda paper) summarised feedback on the proposal. Subsequent to the publication of the January agenda paper, we also had targeted one-to-one meetings (follow-up meetings) with

³ In some stakeholders’ view, goodwill can be shielded by, for example, the headroom of a business with which an acquired business is combined. Headroom is the amount by which a business’s recoverable amount exceeds the carrying amount of its recognised net assets. This headroom can mask the impairment of acquired goodwill when an entity tests the combined business for impairment because any reduction in the recoverable amount of the combined business is first absorbed by that headroom. The shielding effect can lead to delayed recognition of impairment losses on acquired goodwill. In this paper we call this effect shielding.

seven stakeholders to understand better some points raised in comment letters—particularly related to the wording of the last sentence of proposed paragraph 80A(b) of IAS 36 (reproduced in Appendix B). The stakeholders included one preparer, two national standard-setters, and four accounting firms. Relevant feedback from the [January agenda paper](#) and the follow-up meetings is included in the respective sections of this paper.

Key messages from Exposure Draft feedback

9. As the [January agenda paper](#) notes:
 - (a) many respondents agreed that the proposal could reduce shielding, however many disagreed (including almost all respondents who suggested reintroducing amortisation of goodwill) and said the change would have a limited effect on reducing shielding; and
 - (b) many respondents who disagreed, and a few who agreed, suggested providing more guidance and examples illustrating how to apply the proposed requirements.

Staff Analysis

Structure of our analysis

10. As paragraph 9(a) explains, many respondents disagreed with the proposal because, in their view, the changes would have limited effect. As we explain later in the analysis, we think some of the concerns about effectiveness could be driven by a misunderstanding of some aspects of the proposal. We therefore think it would be better to first consider concerns which are specific to the different aspects of the proposals and then assess concerns about the effect of the proposal.
11. Consequently, our analysis is structured as follows:

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- (a) analysis of feedback on specific aspects of the proposals:
 - (i) replacing ‘goodwill is monitored’ with ‘business associated with the goodwill is monitored’ (paragraphs 12–19);
 - (ii) clarifying that operating segment level is a ceiling and not the default (paragraphs 20–25);
 - (iii) use of the term ‘expected to benefit from the synergies of the combination’ in proposed paragraph 80A(a) (paragraphs 26–30);
 - (iv) last sentence of proposed paragraph 80A(b) (paragraphs 31–39); and
 - (v) defining management (paragraphs 40–46)
 - (b) effect of the proposal (paragraphs 47–58); and
 - (c) other requests for clarifications, guidance or examples (paragraph 59).

Analysis of feedback on specific aspects of the proposal

Replacing ‘goodwill is monitored’ with ‘business associated with the goodwill is monitored’

Background

12. As paragraph BC199 of the Basis for Conclusions explains, the Exposure Draft proposed to replace the phrase ‘goodwill is monitored’ in paragraph 80(a) of IAS 36 with ‘business associated with the goodwill is monitored’:
- (a) to describe better the activity that an entity’s management performs;
 - (b) to maintain the link between how goodwill is tested for impairment and how an entity is organised for internal reporting purposes; and
 - (c) to avoid an entity allocating goodwill at the operating segment level by default because the entity concludes its management does not monitor goodwill.

Feedback summary

13. In response to the specific proposed change:
- (a) in our follow-up meetings, a few stakeholders specifically said this change was an improvement.
 - (b) some respondents asked whether 'business' has the same meaning as defined in IFRS 3.⁴ They also asked whether the term refers only to acquired businesses or also to existing/organically grown businesses.
 - (c) one respondent suggested using the phrase 'synergies associated with the goodwill' instead of 'business associated with goodwill'. The respondent said management might monitor a business at some level lower than the level at which synergies arise and it would be costly to allocate goodwill to that lower level.
 - (d) one other stakeholder (in the follow-up meetings) suggested using the phrase 'CGUs associated with goodwill' instead of 'business associated with goodwill'.

Staff analysis

14. While only some respondents provided feedback on this specific change:
- (a) many respondents agreed with the proposal overall, implying that they agree with this specific change; and
 - (b) the many respondents who disagreed with the proposal overall disagreed for reasons such as the effect of the proposal (analysed in paragraphs 47–58) and did not express concerns about this specific change.
15. IFRS 3 defines a business in the context of helping an entity determine whether it has acquired a business or a group of assets. As paragraph BC199 of the [Basis for](#)

⁴Appendix A of IFRS 3 defines a business as 'An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.'

[Conclusions](#) explains, the IASB proposes to use the phrase ‘business associated with the goodwill is monitored’ to describe better the activity an entity’s management performs. As the IASB heard when developing the Exposure Draft, management does not monitor goodwill but monitors the operations—that is, the business—that the goodwill is associated with. We think using the phrase ‘business associated with the goodwill’ applies in a broad sense and captures the activity as the IASB originally intended.

16. We note the Basis for Conclusions on IAS 36 also uses similar wording—for example, paragraph BC145(c) of the Basis for Conclusions on IAS 36 refers to ‘cash-generating units that constitute businesses with...’. We have not identified another phrase that would better describe the activity. Paragraph 17 considers other suggestions from respondents and explains our rationale for not pursuing those suggestions.
17. We considered the specific phrases suggested by respondents in paragraphs 13(c)–13(d). However, we think the IASB should not pursue these suggestions. This is because:
 - (a) not all entities directly monitor synergies associated with the goodwill. Synergies are one component of goodwill and the IASB previously heard management does not monitor goodwill—and consequently, synergies—but monitors the business.
 - (b) using the phrase ‘CGUs’ associated with goodwill’ would result in an entity being required to allocate goodwill to ‘CGUs associated with goodwill’ which, in our view, would be circular and unworkable.
18. We also think it is clear that the phrase ‘business associated with goodwill’ does not refer only to the acquired business. In particular, paragraph 80 of IAS 36 requires an entity to allocate goodwill to CGUs ‘that is expected to benefit from the synergies of the combination irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units’.

Recommendation

19. We recommend retaining the proposal to replace the phrase ‘goodwill is monitored’ in proposed paragraph 80(a) of IAS 36 with ‘business associated with the goodwill is monitored’.

Clarifying that the operating segment level is a ceiling and not the default**Background**

20. Paragraph 80(b) of IAS 36 says each CGU (or group of CGUs) to which goodwill is allocated shall ‘not be larger than an operating segment as defined by paragraph 5 of IFRS 8 *Operating Segments* before aggregation’ (the ‘operating segment ceiling’). The Exposure Draft proposed to add paragraph 80B to clarify that paragraph 80(b) of IAS 36 acts as a ceiling to the level that the entity determines applying paragraph 80(a). As paragraph BC199 of the [Basis for Conclusions](#) explains, this clarification would help avoid an entity applying paragraph 80(b) as a default.

Feedback

21. A few respondents suggested removing the operating segment ceiling (that is, deleting paragraph 80(b) and the proposed clarification). These respondents said:
- (a) doing so would make entities more carefully consider the requirements of IAS 36 when allocating goodwill to CGUs.
 - (b) the requirement is unnecessary and removing it would not result in entities allocating goodwill at a level higher than an operating segment. Financial information is provided to the chief operating decision maker (CODM) as part of segment reporting which naturally caps the level at which an entity can allocate goodwill.
22. A few respondents suggested introducing a rebuttable presumption that information is available to allocate goodwill at some level below the operating segment level. One of these respondents suggested requiring additional disclosures if the entity rebuts the presumption and allocates goodwill at the operating segment level.

Analysis

23. We disagree with the suggestion to remove the operating segment ceiling. As paragraph BC146 of the Basis for Conclusions of IAS 36 explains, the IASB introduced the ceiling to avoid entities erroneously concluding that, when a business combination enhances the value of all the acquirer's pre-existing CGUs, any goodwill in that combination could be tested at the entity level. We think the reason for introducing the ceiling continues to be necessary.
24. We also think introducing a rebuttable presumption as suggested in paragraph 22 is unnecessary. As paragraph BC147 of the Basis for Conclusions of IAS 36 explains, the IASB previously considered requiring the impairment test to be performed one level below operating segment when it first introduced these requirements and decided not to do so.

Recommendation

25. We recommend retaining the proposal to clarify that paragraph 80(b) of IAS 36 acts as a ceiling to the level that the entity determines applying paragraph 80(a).

Use of the term 'expected to benefit from the synergies of the combination' in proposed paragraph 80A(a)

Background

26. Proposed paragraph 80A(a) of IAS 36 (reproduced in Appendix B) states that applying paragraph 80(a) requires an entity to 'identify the cash-generating units or groups of cash-generating units (see paragraph 81 of IAS 36) *expected to benefit from the synergies of the combination*' (emphasis added).

Feedback

27. Some respondents said the link between expected synergies from a business combination with the goodwill impairment testing requirements in IAS 36 is unclear and asked about the implications of the phrase on the allocation of goodwill that arises

in a business combination with no expected synergies. In our follow-up meetings, some stakeholders said goodwill is not only comprised of synergies and suggested broadening the proposed requirement to refer to benefits of the combination more generally.

28. In addition:

- (a) one stakeholder said it is difficult to isolate the value of synergies in a budget or cash flow forecast.
- (b) one stakeholder asks whether to allocate all goodwill based on how synergies are expected on a pro-rated basis, or only allocate the goodwill that arises from synergies, and if the latter, what to do with the remaining goodwill.

Analysis

29. Paragraph 80 of IAS 36 requires an entity to allocate goodwill ‘to each of the acquirer’s [CGUs], or groups of [CGUs], that is *expected to benefit from the synergies of the combination...*’ (emphasis added). The phrase ‘expected to benefit from the synergies of the combination’ in proposed paragraph 80A repeats wording from the existing paragraph 80. Proposed paragraph 80A clarifies how to read and apply other aspects of paragraph 80, so we think it is important to use the same wording in both paragraphs. Using the same phrase does not create new application challenges or questions. We also think the lack of feedback during previous phases of the project implies entities do not have a widespread problem applying the phrase.

Recommendation

30. We recommend no change to the proposal in respect of the feedback on this matter.

Last sentence of proposed paragraph 80A(b)

Background

31. Appendix B reproduces proposed paragraph 80A. In particular, proposed paragraph 80A(b) of the [Exposure Draft](#) said (emphasis added):

(b) to then determine the lowest level for which there is financial information about the cash-generating units identified in paragraph 80A(a) that management regularly uses to monitor the business associated with the goodwill. *That financial information reflects how the benefits expected from the synergies of the combination are managed.*

Feedback

32. With respect to the last sentence of proposed paragraph 80A(b):
- (a) some respondents did not understand the last sentence and asked for industry specific examples / guidance to help apply this requirement;
 - (b) some respondents said the last sentence implies that management monitors goodwill at the level at which it expects synergies from the business combination to arise; and
 - (c) a few respondents suggested removing the last sentence—they said management may monitor the business associated with goodwill for purposes other than impairment testing.

Analysis

33. As paragraphs BC137-BC150B of the Basis for Conclusions on IAS 36 explain, the IASB's intention in developing the existing requirements in IAS 36 was for an entity to allocate goodwill at a level that is consistent with how it reports internally *and* reflects the way an entity manages its operations.
34. Consider for example an entity that acquires 5 shops in region X, each of which are individual CGUs and are expected to benefit from the synergies of the combination. Each of the stores has discrete financial information that management use to monitor the performance of those individual shops. Hence the lowest level at which financial information is available that management uses to monitor the business is the individual shop (CGU) level. However, the synergies related to the stores are managed on combined basis for all 5 shops together (that is, management makes

decisions to achieve those synergies at that higher regional level and uses financial information for region X to facilitate those decisions). Therefore, the goodwill would be allocated to the group of CGUs at the region X level.

35. Proposed paragraph 80A(b) is intended to help entities better understand and apply the IASB's intention in developing the existing requirements. In particular, this paragraph directs an entity to:
- (a) identify the lowest level for which there is financial information about a CGU or group of CGUs that management regularly uses to monitor the business. This sets the level at which internal reporting is available.
 - (b) ensure that the level of internal reporting is consistent with how the entity manages its operations. If, for example, financial information is available at a lower level (that is, the level of each individual store in the example in paragraph 34), but the synergies of the combination are managed at a higher level (that is, the regional level in the example in paragraph 34), then the entity is required to allocate goodwill to that higher level—this is what the last sentence of proposed paragraph 80A(b) was intended to capture.
36. Feedback suggests stakeholders found this last sentence difficult to understand. However, we think the substance of the sentence is necessary—without it, there is a risk of an entity testing for impairment at a very low level—for example, the level of the store in the example discussed in paragraph 34 above. This level of testing would not reflect the IASB's intention.
37. We think the IASB could clarify the wording of proposed paragraph 80A by separating out the two aspects identified in paragraph 35 above. We think this would make the proposal clearer while maintaining its targeted nature. When we explained the intention behind the wording in follow-up meetings, most stakeholders said they better understood the proposals.
38. Appendix A considers requests to develop examples.

Recommendation

39. We recommend retaining the proposal in paragraph 80A(b) with some wording changes to separate out the requirement about how financial information about synergies is considered when determining the level at which to allocate goodwill for impairment testing.

Defining management**Background**

40. Paragraph 80(a) of IAS 36 refers to ‘internal management purposes’ and proposed paragraph 80A(b) refers to information that ‘management regularly uses to monitor’ (see Appendix B for excerpts from the Exposure Draft).

Feedback

41. Some respondents suggested defining ‘management’ in paragraph 80(a) and proposed paragraph 80A of IAS 36 and explaining its relationship to key management personnel⁵. Respondents said identifying the appropriate level of management for applying IAS 36 requirements is difficult when entities have multiple levels of management. One accounting firm suggested providing an example, or additional guidance, to reduce the risk of entities defaulting to a higher level of management than intended.
42. During the follow-up meetings, a few stakeholders said the proposed addition of ‘management’ could be interpreted differently to the existing use of ‘management’ in the phrase ‘internal management purposes’. One stakeholder suggested repeating the phrase ‘internal management purposes’ in proposed paragraph 80A(b) rather than introducing ‘management’.

⁵ As [Agenda Paper 18A](#) of the IASB’s October 2025 meeting explains, the Exposure Draft proposed requiring entities to disclose information about the performance of a business combination based on the information reviewed by an entity’s key management personnel as defined in IAS 24 *Related Party Disclosures*.

Analysis

43. The IASB intentionally did not define or prescribe a level of management when it introduced the requirements in paragraph 80 of IAS 36. The IASB considered suggestions to require entities to aggregate cash-generating units that constitute businesses with similar characteristics for purposes of impairment testing. However, paragraph BC150 of the Basis for Conclusions on IAS 36 notes that ‘...In the [IASB]’s view, if, because of the way an entity is managed, information about goodwill impairment losses is available to *management at a particular level*, that information should also be available to users of the entity’s financial statements’ (emphasis added).
44. We think it is unnecessary to define management. The use of the word ‘management’ in proposed paragraph 80A of IAS 36 was not intended to affect how stakeholders interpreted the existing phrase ‘internal management purposes’ in paragraph 80 of IAS 36. Proposed paragraph 80A explains how an entity applies paragraph 80 and consequently, the use of management in proposed paragraph 80A is intended to be consistent with the use of the phrase ‘internal management purposes’. We will consider any clarifications we can make in this respect when drafting.
45. The IASB considered the relationship between the level an entity determines in applying paragraph 80(a) of IAS 36 and the level at which a business combination is reviewed for the purposes of the proposed performance information disclosures (key management personnel) in developing the [Exposure Draft](#). The IASB:
- (a) proposed to clarify in the Exposure Draft that these levels might not correspond (proposed paragraph 83(b) of IFRS 3 in the Exposure Draft); and
 - (b) explained in paragraphs BC200–BC201 of the [Basis for Conclusions](#) that the objectives of these requirements are different, so a direct link could result in an entity performing the impairment test at a different level than the IASB intended, or in further misunderstandings about how to perform the impairment test.

Recommendation

46. We recommend no change to the proposal in respect of feedback on this matter.

Effect of the proposal***Background***

47. As paragraphs BC197–BC198 of the [Basis for Conclusions](#) explain:
- (a) feedback on the [Discussion Paper](#) indicated entities might not always apply proposed paragraph 80 of IAS 36 as the IASB intended when developing the impairment test; and
 - (b) the IASB’s intention with this proposal was to make targeted changes to paragraph 80 of IAS 36 to improve the application and enforcement of those requirements, which in turn could help reduce shielding.

Feedback

48. Many respondents agreed with the proposal for reasons previously considered by the IASB—that is, the proposal will help entities allocate goodwill to CGUs for impairment testing purposes and thereby reduce shielding. For example:
- (a) one preparer group said the proposal helpfully clarifies how to allocate goodwill; and
 - (b) one accounting firm said the proposal helpfully emphasises the link between goodwill allocation and how an entity organises its operations.
49. A few users commented on the proposal and almost all agreed. For example, one investor group said clarifying how to allocate goodwill coupled with a requirement to disclose reportable segments that include a CGU (see [Agenda Paper 18C](#) of July 2025 IASB meeting) would result in more useful information.

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50. However, many respondents disagreed with the proposal. Many of these respondents said the proposal will not significantly change how entities allocate goodwill and thereby would have a limited effect on reducing shielding.
51. A few respondents, particularly preparers and accounting firms, said the proposal—which could result in entities allocating goodwill at a level lower than is currently the case, and therefore performing additional impairment tests—could result in significant costs for some entities and would contradict the objective of reducing the cost and complexity of the impairment test.
52. A few respondents asked whether the proposals are clarifications or represent substantive changes to the requirements. These respondents said characterising the changes as clarifications may diminish their effectiveness in reducing shielding—this is because entities may not view the changes as requiring changes to their existing goodwill allocations. One accounting firm said describing the proposals as clarifications means any change to how an entity allocates goodwill when implementing the proposals would indicate the entity had a prior period error.

Analysis

53. The proposal would amend IAS 36. In doing so, the proposal aims to clarify the IASB's original intention when the IASB developed IAS 36 regarding the level at which an entity should test goodwill for impairment (as explained in Paragraph BC199 of the [Basis for Conclusions](#) (summarised in paragraph 6)). We will consider better communicating the nature of the change when drafting any final amendments.
54. As noted previously, we think some of the feedback about the effect of the proposal could be linked to the understandability of the drafting of aspects of the proposal. For example, a possible lack of clarity about the meaning of the last sentence in proposed paragraph 80A(b) of IAS 36 may have led a few respondents to think the proposal would require entities to perform the test at a very granular level (reported in paragraph 32). We think some of the wording clarifications discussed earlier in this paper should reduce some of those concerns.

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55. We also think the proposal's effect could vary depending on entities' current practices. For example, for entities:
- (a) currently defaulting to the operating segment ceiling, the proposal would likely change how they allocate goodwill to CGUs; and
 - (b) already allocating goodwill at the level that the IASB originally intended as explained in Paragraph BC199 of the [Basis for Conclusions](#) (summarised in paragraph 6) the effect of the proposed change might be insignificant.
56. Although the proposal would not affect all entities in the same manner, we think the targeted nature of the proposal is likely to have the desired targeted effect of addressing feedback that the IASB heard in developing the [Exposure Draft](#)—that is, that entities might not always apply proposed paragraph 80 of IAS 36 as intended.
57. We acknowledge the concern about the cost to test goodwill for impairment at lower levels, particularly for entities that are not allocating goodwill as the IASB originally intended (see paragraph 55). However, the benefits of performing the test at the level that the IASB originally intended would have been assessed as outweighing this cost at the time the requirements were created.

Recommendation

58. We think the benefits of more timely impairment recognition that would result from the proposal continue to outweigh the cost of performing the impairment test and recommend no change to the proposal in respect of feedback on the effectiveness of the proposal.

Requests for clarifications, guidance or examples

59. Appendix A to this paper summarise and analyses other comments and request for clarifications, guidance and examples. As that Appendix notes, we recommend no changes to the proposals in respect of feedback on those comments and requests.

Summary of staff recommendations

60. We recommend retaining the proposal to improve how entities allocate goodwill to cash-generating units, and in particular:
- (a) retaining the proposal to replace the phrase ‘goodwill is monitored’ in proposed paragraph 80(a) of IAS 36 with ‘business associated with the goodwill is monitored’;
 - (b) retaining the proposal to clarify that paragraph 80(b) of IAS 36 acts as a ceiling to the level that the entity determines applying paragraph 80(a) of IAS 36; and
 - (c) retaining the proposal in paragraph 80A(b) of IAS 36 with some wording changes to separate out the requirement about how financial information about synergies is considered when determining the level at which to allocate goodwill for impairment testing.
61. We recommend that the IASB make no changes to the proposal in respect of other feedback on the proposal.

Question for the IASB

Do IASB members agree with our recommendations in paragraphs 60–61?

Appendix A— Requests for clarifications, guidance or examples

- A1. One respondent suggested aligning the goodwill allocation requirements in IAS 36 with those in IAS 21 *The Effects of Changes in Foreign Exchange Rates*. Paragraph 47 of IAS 21 requires goodwill arising on the acquisition of a foreign operation to be treated as an asset of the foreign operation. It is unnecessary to do so—the IASB already considered between the goodwill allocation requirements in IAS 21 and IAS 36 and decided not to align those requirements. Paragraph 83 of IAS 36 states:

A cash-generating unit to which goodwill is allocated for the purpose of impairment testing may not coincide with the level at which goodwill is allocated in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* for the purpose of measuring foreign currency gains and losses. For example, if an entity is required by IAS 21 to allocate goodwill to relatively low levels for the purpose of measuring foreign currency gains and losses, it is not required to test the goodwill for impairment at that same level unless it also monitors the goodwill at that level for internal management purposes.

- A2. Many respondents (including those who agreed and disagreed with the proposal) suggested providing more guidance and examples illustrating how to apply the proposed requirements. The table below summarises those suggestions and includes our analysis of those suggestions:

Suggestion	Analysis
(a) a few respondents suggested the IASB define 'monitor', in paragraph 80(a) and proposed paragraph 80A of IAS 36. For example, by explaining what information management need to receive and/or review to be monitoring.	We think the changes proposed in proposed paragraph 80A are aligned with the IASB's targeted approach to providing limited guidance on what 'monitoring the business associated with the goodwill' means. We think the IASB should not pursue suggestions to

	define ‘monitor’ or develop examples of how to identify CGUs.
(b) a few respondents suggested providing examples of factors to consider when identifying CGUs, such as revenue and asset separation or guidance on how to determine whether groups of assets have largely independent cash inflows.	Providing examples of factors to consider when identifying CGUs goes beyond the scope of the proposal.
(c) one national standard-setter suggested providing an example illustrating how management might apply proposed paragraphs 80–80B of IAS 36 in periods subsequent to a business combination, showing how the level at which management monitors the business associated with goodwill may change as the acquired business gets integrated into existing operations.	Providing examples showing how the level at which management monitors goodwill may change over time goes beyond the scope of the proposal.
(d) a few respondents suggested clarifying how to allocate goodwill when synergies arise across multiple CGUs or when businesses are highly integrated (see paragraph 20(b) of the January Agenda Paper for more details).	The proposals clarify how to allocate goodwill to CGUs or groups of CGUs—these clarifications apply when synergies arise across multiple CGUs or when businesses are highly integrated. We think further clarifications are unnecessary.

<p>(e) some respondents requested industry-specific examples/guidance of how to apply the proposal.</p>	<p>The IASB previously concluded that it cannot provide comprehensive guidance on how to allocate goodwill to CGUs (see paragraph BC198 of the Basis for Conclusions). Therefore, we think the IASB should not add requirements, examples or guidance to address these suggestions—businesses are organised differently and so the requirements cannot comprehensively address allocating goodwill for all scenarios.</p>
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Staff recommendation

- A3. We recommend that the IASB make no changes to the proposal in respect of other feedback on the proposal.

Appendix B—Excerpts of the proposed amendments to IAS 36

B1. The Exposure Draft proposed (underlined text is proposed to be added):

80 For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. 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 business associated with 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 *Operating Segments* before aggregation.

80A In applying paragraph 80, an entity first applies paragraph 80(a) to determine the lowest level at which the business associated with the goodwill is monitored for internal management purposes. Applying paragraph 80(a) requires an entity:

(a) to identify the cash-generating units or groups of cash-generating units (see paragraph 81) expected to benefit from the synergies of the combination; and

(b) to then determine the lowest level for which there is financial information about the cash-generating units identified in paragraph 80A(a) that management regularly uses to monitor the business associated with the goodwill. That financial information

reflects how the benefits expected from the synergies of the combination are managed.

80B The requirement in paragraph 80(b) sets the highest level at which an entity is permitted to allocate goodwill for the purpose of applying paragraph 80(a) and is therefore applied only after paragraph 80(a) has been applied.