STAFF PAPER

July 2017

IASB® Meeting

Project	**Goodwill and Impairment research project**		
Paper topic	Summary of discussions to date		
CONTACT(S)	Raghava Tirumala	rtirumala@ifrs.org	+44 (0)20 7246 6953
	Woung Hee Lee	wlee@ifrs.org	+44 (0)20 7246 6947

Structure of the paper

1. This paper is structured as follows:

(a)	objectives and scope of the research project;	paragraphs 2–9
(b)	summary of discussions to date;	paragraphs 10–14
(c)	tentative project plan;	paragraph 15
(d)	feedback during and after the Post-Implementation Review (PIR) of IFRS 3 *Business Combinations*;	Appendix A
(e)	the Financial Accounting Standards Board's (FASB) projects on goodwill and impairment; and	Appendix B
(f)	feedback from consultative groups on the various possible approaches being considered as part of the research project.	Appendix C

The main changes to this paper from Agenda Paper 18A of the May 2017 Board meeting are as follows:

- summary of discussions to date has been updated for the Board's discussion in May 2017 meeting;

- the tentative project plan has been updated; and
- minutes from the discussions of the consultative groups on the possible approaches on which the staff sought feedback have been included.

Objectives and scope of the research project

2. The Board added the Goodwill and Impairment research project (the research project) to its agenda to consider how to address the following three areas of focus identified in the Post-Implementation Review (PIR) of IFRS 3 *Business Combinations*:
   (a) whether changes should be made to the existing impairment testing requirements in IAS 36 *Impairment of Assets*;
   (b) subsequent accounting for goodwill (including the relative merits of an impairment-only approach and an amortisation and impairment approach); and
   (c) the extent to which other intangible assets should be separated from goodwill.
3. *Appendix A* of this paper includes the feedback from stakeholders during and after the PIR of IFRS 3.
4. The objective of considering changes to the impairment testing model is to identify:
   (a) possible simplifications to the impairment testing model that help reduce the cost of testing without making the test less robust ('simplification objective'); and
   (b) improvements that make the impairment testing model more effective in capturing impairment losses at the appropriate time and in the appropriate amounts ('effectiveness objective').
5. The objective of considering changes to subsequent accounting for goodwill is to identify the merits, if any, in introducing other approaches, such as amortisation of goodwill. However, during and after the PIR of IFRS 3, the Board observed that there needs to be a strong argument to support making fundamental changes to the

accounting for goodwill. Stakeholders have always had opposing and strongly held views on subsequent accounting for goodwill, in particular amortisation versus non-amortisation. The feedback from the PIR of IFRS 3 did not provide evidence of (a) decrease in diversity of views; (b) new conceptual arguments; or (c) goodwill amortisation being considered as providing useful information to investors. Consequently, the Board concluded that the focus of the research project should be to first explore improvements to the impairment testing model in IAS 36. If the concerns heard during the PIR of IFRS 3 could be sufficiently addressed through improvements to the impairment testing model, there may not be a need to reconsider accounting for goodwill.

6. The objective of considering identification of intangible assets separately from goodwill in a business combination is to determine whether there are cost benefit reasons to subsume within goodwill any intangible assets for which IFRS 3 currently requires separate recognition.

7. Another area of focus identified from the PIR of IFRS 3 was information about the subsequent performance of the acquiree. The Board determined this to be of medium significance in preparing the Report and Feedback Statement on the PIR of IFRS 3. The Board noted that this topic is related to the subsequent accounting for goodwill. The Board did not add this topic to its agenda and decided that it could further investigate whether it would be practical for entities to prepare this information. However, on the basis of subsequent outreach with investors, the Board learnt that investors would like entities to disclose information about (a) the key drivers that justified the valuation of an acquisition (and hence the amount of goodwill); and (b) whether the acquisition has been successful. Investors indicated that this information would enable them to assess the performance of the acquirer’s management. Consequently, the Board directed the staff to consider this topic in the context of the overall objective of the research project and assess whether better and more timely information about goodwill and impairment can be provided to users of financial statements without imposing costs on preparers that exceed the benefits.

8. Accordingly, the research project has the following strands:

   (a) simplifying the impairment testing model in IAS 36;

(b) improving effectiveness of impairment testing;

(c) improving the disclosures about goodwill and impairment; and

(d) identifying intangible assets in a business combination.

About the related FASB projects

9. The research project is not a joint project with the Financial Accounting Standards Board of the US (FASB). However, the FASB has two projects on its research agenda with objectives similar to those of the research project and both Boards have decided to monitor each other's work because of converged requirements on accounting for business combinations. The current requirements in IFRS Standards and US GAAP on impairment of non-financial assets are not converged. See *Appendix B* of this paper for (a) a brief background on the FASB's projects; and (b) a high-level comparison of IFRS Standards and US GAAP in respect of impairment of non-financial assets.

Summary of discussions to date

10. The Board has met ten times since September 2015 to discuss the research project. Two of these ten meetings were jointly with the FASB. The Board has discussed various approaches on all four strands of the research project listed in paragraph 8 of this paper.

11. However, before May 2017, the Board had only a high-level discussion on approaches to simplify the impairment testing model because the amortisation versus impairment debate dominated the Board's discussions at those past meetings. At its May 2017 meeting, the Board initiated its discussions of possible simplifications.

12. No decisions have been made on the research project and the staff has been taking the feedback provided by the Board and continuing with the research work.

13. The following table summarises the various approaches presented to the Board in the past.

Simplifying the impairment testing model in IAS 36	One or more of the following approaches might help in achieving the simplification objective: (a) relief from annual quantitative impairment testing; (b) changes to the value in use (VIU) methodology; and (c) additional guidance to assist entities in applying the IAS 36 requirements. See Agenda Paper 18B for the analysis of possible relief from annual testing. The staff will analyse the other possible simplifications for a future meeting.
Improving effectiveness of impairment test	One or more of the following approaches might help in achieving the effectiveness objective: (a) using single method, ie either fair value less costs of disposal or value in use, as the sole basis for determining the recoverable amount; and (b) the pre-acquisition headroom (PH) approach. *Using a single method to determine the recoverable amount* Using a single method to determine the recoverable amount was initially considered as a possible approach to simplify the impairment testing model. At its May 2017 meeting, the Board observed that the complexity argument put forth by stakeholders during the PIR of IFRS 3 was not a persuasive argument for changing the basis for determining the recoverable amount. This is because an entity does not need to calculate both value in use and fair value less costs of disposal of a cash-generating unit in all situations. It needs to do this only when calculating one of these amounts has shown that there may be an impairment. However, moving to a single model might help in improving the effectiveness of the impairment testing model. A more straightforward impairment test using one model might: (a) be easier to apply and understand; and (b) reduce concerns that the current model makes it too easy to delay and (or) conceal impairment losses. *PH approach* In situations in which an entity allocates acquired goodwill to a pre-combination cash-generating unit (CGU) that is expected to benefit from the synergies of the combination, the PH approach would remove the so-called sheltering effect of internally generated goodwill. See Agenda Paper 18D for a high-level analysis of the two possible approaches.

Improving disclosures about goodwill and impairment	One or more of the following additional disclosure requirements could be considered: (a) key assumptions or targets supporting the purchase price and consequently the goodwill acquired in a business combination; (b) comparison of those key performance targets with actual performance; (c) breakdown of carrying amount of goodwill; and (d) recoverability of goodwill. See Agenda Paper 18C for a discussion of these disclosures.
Identifying intangible assets in a business combination	The following approaches could be considered in respect of identifying intangible assets separately from goodwill in a business combination: (a) no change to requirements, but improve application guidance; (b) subsume some intangible assets in goodwill; (c) subsume intangible assets that cannot be measured reliably; and (d) allow further grouping of intangible assets. A discussion of these approaches will be presented to the Board at a future meeting.

Feedback from consultative groups

14. The following table summarises the recent staff discussions with consultative groups. See *Appendix C* of this paper for the minutes from those discussions.

Month/Year	*Consultative group*	*Feedback sought on*
March 2017	Global Preparers Forum (GPF)	Possible simplifications to the impairment testing model
June 2017	Joint group of members of the Capital Markets Advisory Committee (CMAC) and GPF	Relief from annual quantitative impairment testing and possible improvements to the disclosure requirements

Month/Year	*Consultative group*	*Feedback sought on*
July 2017	Accounting Standards Advisory Forum	ASAF Agenda Paper 3B Possible simplifications, especially on relief from annual quantitative impairment testing, and using a single method as the sole basis for determining the recoverable amount ASAF Agenda Paper 3 and Agenda Paper 3A The Accounting Standards Board of Japan (ASBJ) is presenting a paper on subsequent accounting of goodwill. In that paper, they have considered the PH approach as one possible approach but did not recommend pursuing that approach.

Tentative project plan

15. The staff proposes the following plan:

October 2017	Collective consideration of the simplification objective, the effectiveness objective and improvements to the disclosures. The purpose of this collective consideration is to select the approaches that would improve the impairment testing model and resolve stakeholders' concerns sufficiently.
December 2017	• Subsequent accounting for goodwill—whether amortisation of goodwill should be reintroduced. • Identify next steps—for example whether to develop a discussion paper.
February 2018	• Possible approaches to simplify identification of intangible assets separately from goodwill in a business combination.

Appendix A
Feedback from stakeholders during and after the PIR of IFRS 3

Impairment testing

A1. The Board's Report and Feedback Statement on the PIR of IFRS 3 set out the following next steps:

Area of focus	Assessed significance	Possible next steps
Effectiveness and complexity of testing goodwill for impairment	High	Research will be undertaken. We could review IAS 36 and we could consider improvements to the impairment model; particularly whether there is scope for simplification.

A2. Many participants in the PIR think that the impairment test is complex, time-consuming and expensive and involves significant judgements.

A3. The main concerns about applying the current impairment testing requirements are as follows:

(a) the overall costs involved in performing the impairment test, including the requirement to perform it annually and the need to determine both value in use (VIU) and fair value less costs of disposal (FVLCD) in some situations.

(b) limitations of the VIU calculation, including the prohibition on including expansion capital expenditure in cash flow projections and the requirement to use a pre-tax discount rate. These limitations are seen as artificial by participants citing these problems.

(c) the high degree of subjectivity in the assumptions used in the impairment test, including allocating goodwill to cash-generating units (CGUs) for impairment testing purposes, and reallocating that goodwill if a restructuring occurs.

A4. Investors think that there appears to be a 'lag' in the time between the impairment occurring and the impairment charge being recognised in the financial statements. Some stakeholders think that managers use their discretion in recognising impairment charge in ways that are potentially favourable to themselves. There is some academic evidence to support that thought. Consequently, they think that the current impairment model is not effective.

Subsequent accounting for goodwill

A5. The Board's Report and Feedback Statement on the PIR of IFRS 3 set out the following next steps:

Area of focus	**Assessed significance**	**Possible next steps**
Subsequent accounting for goodwill (ie impairment-only approach compared with an amortisation and impairment approach)	High	Research will be undertaken. We could consider whether and how the costs of accounting for goodwill can be reduced without losing the information that is currently being provided by the impairment-only approach, and which our review of academic studies suggested was value-relevant. This could include considering: (a) how improvements to the impairment-only approach (in particular to the impairment test) could address some of the concerns that have been raised; and (b) whether a variation on an amortisation and impairment model could be developed with an amortisation method that does not undermine the information currently provided by the impairment-only approach.

A6. Many participants in the PIR suggested reintroducing amortisation of goodwill together with an indicator-based impairment test because they think that:

(a) goodwill acquired in a business combination is supported and replaced by internally generated goodwill over time;

(b) estimating the useful life of goodwill is possible and is no more difficult than estimating the useful life of other intangible assets;

(c) goodwill has been paid for and so, sooner or later, it should have an impact on profit or loss;

(d) amortising goodwill would decrease volatility in profit or loss when compared to an impairment model; and

(e) amortising goodwill would reduce pressure on the identification of intangible assets, because both goodwill and intangible assets would be amortised.

A7. Some participants, especially investors, supported the current requirements because they think that the impairment-only approach has confirmatory value because it:

(a) is useful for relating the price paid to what was acquired and for calculating the return on invested capital;

(b) helps them to assess the stewardship of the management; and

(c) helps them to verify whether an acquisition is working as expected.

A8. At the March 2017 meeting of the GPF, the staff did not ask GPF members for their views on subsequent accounting for goodwill, but a few GPF members said that the Board should consider alternative approaches, such as amortisation or direct write-off of goodwill, because they think that:

(a) the high level of subjectivity in the value in use methodology:

(i) makes it difficult to obtain accurate inputs, for example, because of difficulty in segregating cash flows attributed to regular maintenance of an asset from cash flows attributed to improving or enhancing an asset's performance; and

(ii) causes unproductive debates with auditors;

(b) the measurement of recoverable amount is often highly sensitive to unverifiable assumptions about the terminal growth rate;

(c) the impairment testing methodology could be 'gamed' by manipulating the recoverable amount, and consequently the timing of recognition of impairment loss;

(d) because internally generated goodwill gradually replaces purchased goodwill, at some point the carrying amount of goodwill will no longer represent only synergies that arose from the past business combination that gave rise to the recognition of the purchased goodwill; and

(e) amortisation of goodwill would better reflect the economics in some situations, for example, if the acquired business has a finite life.

Identification and measurement of intangible assets in a business combination

A9. The Board's Report and Feedback Statement on the PIR of IFRS 3 set out the following next steps:

Area of focus	Assessed significance	Possible next steps
Identification and fair value measurement of intangible assets such as customer relationships and brand names	Medium/high	Research will be undertaken. We could consider whether particular intangible assets (for example, customer relationships) should be subsumed into goodwill. We could also consider what additional guidance could be given to assist in the identification of customer relationship intangible assets and their associated measurement.

A10. Some participants in the PIR raised concerns about measuring, and in some cases, identifying the following intangible assets:

(a) non-contractual intangible assets;

(b) intangible assets that are not capable of being sold or licensed separately;

(c) intangible assets for which there is no active market; and

(d) intangible assets in the early stages of development.

A11. Their main concern is that the assumptions made, including the useful life, in valuing those assets are highly subjective. The fair values are sometimes sensitive to small changes in those assumptions. Furthermore, there is diversity in the valuation methods used in determining the fair value of those assets.

A12. Specifically in relation to customer relationships and brands, some participants think that measuring fair value of those intangible assets is costly, complex and time-consuming. Complexity arises when an acquired brand derives its value mainly from customer relationships of an acquired entity. In such situations, a high level of judgement may have to be used by the acquirer in valuing the acquired brand and customer relationship intangible assets separately. Those participants think that the benefit to investors of the information provided about these intangible assets does not justify the costs of separately recognising them.

A13. Feedback from investors in relation to customer relationships and brands is mixed. Some investors think that valuation of those intangible assets is subjective and that separate recognition does not provide useful information. Other investors support separate recognition of those intangible assets because it provides an insight into the value drivers of the business combination.

A14. In relation to the presentation and disclosure of intangible assets in a business combination, investors raised two main concerns:

(a) *presentation of amortisation expense*—some investors raised concerns that amortising intangible assets that they consider to be continually replaced, such as brands and customer-related intangible assets, results in double counting of expenses. For this reason they adjust the earnings of an entity by adding back the amortisation expense on these intangible assets. However, they say they are often unable to identify the amortisation expense that they want to add back, especially in an entity's interim financial statements. This information should be available from the reconciliation of intangible assets (see paragraph 118(e) of IAS 38) in an entity's annual financial statements. The reconciliation may not be provided by the entity in its interim financial statements. Consequently, for intangible assets that are continually replaced, those investors prefer that the amortisation expense should be presented separately on the face of the statement of comprehensive income.

(b) *additional disclosures*—some investors said that there is insufficient information about the assumptions made in valuing intangible assets acquired in a business combination. Some noted that it would be useful to extend to these intangible assets the disclosure requirements in IFRS 13 *Fair Value Measurement*.

Improving disclosures on goodwill and impairment

A15. The Board's Report and Feedback Statement on the PIR of IFRS 3 set out the following next steps:

Area of focus	**Assessed significance**	**Possible next steps**
Information about the subsequent performance of the acquiree	Medium	This topic is related to the subsequent accounting for goodwill. Depending on the feedback received from the 2015 Agenda Consultation, we could investigate whether it would be practical to prepare this information, and for how many reporting periods post-acquisition this information would be cost-beneficial.

A16. Investors gave a mixed feedback about the current information provided on goodwill and impairment.

(a) Some said the current information is useful because it provides confirmatory value about the performance of the acquisition and about the stewardship of management.

(b) However some say the current information has limitations for the following main reasons:

(i) impairment calculations are inherently very judgemental and the assumptions used in the calculations are subjective.

(ii) disclosures are not sufficient to assess whether the main inputs/assumptions are reasonable. However some investors said that some of the current disclosures are useful; these included discount rates used, long-term growth rates, profit and capital expenditure assumptions and sensitivities.

(iii) insufficient information to help them understand the subsequent performance of the acquired business and whether main targets/synergies of the acquisition are achieved.

(c) Some investors focus more on the timing of the impairment write-down and its overall magnitude rather than the specific amount of impairment recognised.

A17. Investors appear to be particularly interested in understanding (a) the key drivers that justified the valuation of an acquisition (and hence the amount of goodwill); and (b) whether the acquisition has been successful. This information would enable them to assess the performance of the acquirer's management. They think that the current disclosures in financial statements about the primary reasons for the business combinations and the factors that make up the goodwill (paragraph B64 of IFRS 3) are either insufficient or boilerplate repetition of the Standard).

A18. Although this topic was not added to the Board's agenda, on the basis of feedback from investors during and after the PIR, the Board directed the staff to consider various ways in which information about subsequent performance of the acquiree could be provided. The form of the disclosure could range from detailed financial information about the acquiree to the key financial performance indicators. The staff has limited its considerations to the latter.

A19. Preparers generally think that the current disclosure requirements about goodwill and impairment are already excessive. The feedback from the PIR of IFRS 3 and subsequent outreach provided some evidence that the current disclosure requirements in IAS 36 are not being properly applied in practice.

Appendix B
The FASB's projects on goodwill and impairment

About the FASB's projects

B1. The FASB has the following two projects.

(a) Goodwill impairment, divided into:

(i) Phase 1—Accounting for Goodwill Impairment[1]; and

(ii) Phase 2—Subsequent Accounting for Goodwill for Public Business Entities and Not-for-Profit Entities.[2]

(b) Accounting for Identifiable Intangible Assets in a Business Combination for Public Business Entities and Not-For-Profit Entities.[3]

B2. The objective of Phase 1, Accounting for Goodwill Impairment, was to reduce the cost and complexity of the subsequent accounting for goodwill by simplifying the impairment test.

B3. The FASB completed Phase 1 in January 2017 when it issued Accounting Standards Update (ASU) 2017-04, *Simplifying the Test for Goodwill Impairment*. Before the ASU, the impairment test in US GAAP was a two-step process. The first step was to compare the carrying amount of a reporting unit with its fair value. If the carrying amount was higher than the fair value, the second step was to calculate the implied fair value of goodwill and recognise an impairment loss if the carrying value of goodwill exceeded its implied fair value. In computing the implied fair value of goodwill, an entity had to determine the fair value of all identifiable assets and liabilities of the reporting unit in a manner similar to determining fair value of assets acquired and liabilities assumed in a business

[1] Link to the project webpage http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=1176163679475

[2] Link to the project webpage http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=1176167307243

[3] Link to the project webpage http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=1176165910709

combination. IAS 36 does not require an entity to determine the implied fair value of goodwill when measuring a goodwill impairment loss.

B4. The ASU eliminated the second step of determining the implied fair value of goodwill. The objective was to reduce the cost and complexity of the impairment test. With this simplification, one difference between IFRS Standards and US GAAP was eliminated. However, the respective impairment models remain unconverged.

B5. The objective of Phase 2, Subsequent Accounting for Goodwill for Public Business Entities and Not-for-Profit Entities, is to evaluate whether additional changes need to be made to the subsequent accounting for goodwill beyond any changes to the impairment test resulting from Phase 1.

B6. The FASB's identifiable intangible assets project is intended to evaluate whether certain identifiable intangible assets acquired in a business combination should be subsumed into goodwill.

Current status of the FASB's projects

B7. The FASB has moved Phase 2 of its goodwill impairment project and the intangible assets in a business combination project from its standard-setting agenda to its research agenda. The FASB decided to evaluate the effectiveness of its simplification amendments described above and monitor the IASB Board's research project before considering whether there is a need for additional changes to the subsequent accounting for goodwill, including consideration of permitting or requiring amortisation of goodwill and/or additional changes to the impairment testing methodology.

High-level comparison of IFRS Standards and US GAAP (impairment of non-financial assets)

B8. The following table summarises the main differences between the current requirements in IFRS Standards and US GAAP for impairment of non-financial assets that are relevant to the research project.

IFRS Standards	US GAAP
Impairment testing is required when there is an indication of impairment.	Similar requirement.
Annual impairment testing is required for goodwill, indefinite life intangible assets and intangible assets not yet available for use. The annual test may be performed at any time during the year provided it is performed at the same time each year.	Similar requirement except that intangible assets not yet available for use are tested only if there is an indicator of impairment.
Depending on the circumstances, assets are tested for impairment as an individual asset, as part of a CGU or as part of a group of CGUs. When possible, an impairment test is performed for an individual asset. Otherwise, assets are tested in CGUs.	Depending on the circumstances, assets are tested for impairment as an individual asset, as part of an asset group or at the reporting unit level. Depreciable assets are tested for impairment in asset groups unless an individual asset generates identifiable cash flows largely independent of the cash flows from other asset groups.
A CGU is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets.	An asset group is the lowest level for which there are identifiable cash flows that are largely independent of the net cash flows of other groups of assets. A reporting unit is an operating segment or one level below an operating segment if certain conditions are met. (Both may differ from a CGU under IFRS Standards.)
Goodwill is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination from which it arose. Each unit or group of units is required to reflect the lowest level at which goodwill is monitored for internal management purposes and shall not be larger than an operating segment.	Goodwill is allocated to reporting units that are expected to benefit from the synergies of the business combination from which it arose.
An impairment loss for a CGU is allocated first to any goodwill and then pro rata to other assets in the CGU that are within the scope of IAS 36.	An impairment loss for an asset group is allocated pro rata to assets in the asset group, excluding working capital, goodwill, corporate assets and indefinite-lived intangible assets.

IFRS Standards	US GAAP
Reversals of impairment are required, other than for impairments of goodwill, for which reversals are prohibited.	Reversals of impairments are prohibited.
Impairment testing model One-step impairment test for all assets within the scope of IAS 36 The carrying amount of an asset or CGU is compared with its recoverable amount. Recoverable amount is the higher of fair value less costs of disposal and value in use. The impairment loss is measured as the difference between carrying amount and recoverable amount.	Impairment testing model: Different models for goodwill, indefinite-lived intangible assets and long-lived assets *Goodwill* One-step impairment test. The carrying amount of a reporting unit is compared with its fair value. The impairment loss is measured as the excess of the carrying amount over the fair value of the reporting unit. The loss recognised cannot exceed the carrying amount of goodwill. Optional qualitative assessment: An entity may first assess qualitative factors to determine whether the quantitative goodwill impairment test is necessary. If the entity determines, based on the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is below its carrying amount, the quantitative impairment test is performed. Examples of events and circumstances that an entity would need to consider in doing qualitative impairment test are provided. An entity can bypass the qualitative assessment for any reporting unit in any period and proceed to the quantitative test.

IFRS Standards	US GAAP
	Indefinite-lived intangible assets One-step impairment test. The carrying amount of an asset is compared with its fair value. The impairment loss is recognised as the excess of the carrying amount over the fair value of the asset. Similar to goodwill, an entity could perform the optional qualitative assessment. *Long-lived assets* Two-step impairment test. Step One—The carrying amount is first compared with undiscounted cash flows. If the carrying amount is lower than the undiscounted cash flows, no impairment loss is recognised. Step Two—If the carrying amount is higher than the undiscounted cash flows, an impairment loss is measured as the difference between the carrying amount and fair value.

Appendix C
Minutes from discussions of consultative groups

March 2017 meeting of GPF (Agenda Paper 3)

C1. The staff sought feedback from GPF members on the following ideas the staff are exploring for possible simplifications to the goodwill impairment testing requirements in IAS 36 *Impairment of Assets*:

(a) one-model approach to determining recoverable amount of an asset instead of the current two-model approach (higher of value in use and fair value less costs of disposal);

(b) relief from annual testing by not requiring an entity to test goodwill for impairment when there is no indication that goodwill may be impaired (indicator approach);

(c) improving value in use methodology by allowing the use of post-tax discount rate and relaxing some restrictions on the cash flows to be included; or

(d) providing additional guidance on allocating goodwill arising in a business combination to a pre-combination cash generating unit (CGU).

C2. Several GPF members favoured an indicator approach to provide relief from annual impairment testing and relaxing the restrictions on cash flows to be included in computing value in use. In relation to the indicator approach, one GPF member asked the staff to consider whether missing the budgeted targets should be an indicator that triggers impairment testing.

C3. In relation to the one-model approach, a few GPF members indicated a preference for a model that uses value in use because they think that:

(a) in practice, entities end up using value in use because there is usually no observable price for a CGU, and when an observable price is available, that price is not a better reflection of the value of the CGU, for example if the price is observed only for a small block of shares and does not reflect a control premium; and

(b) value in use better reflects the fact that an entity holds, for example, property, plant and equipment for use in the production or supply of goods or services.

C4. Individual GPF members had other suggestions for clarifications or changes to IAS 36, including:

(a) that the discount rate used should be consistent with the level of cash flow projections;

(b) allowing an entity to use its own weighted average cost of capital instead of that of a peer group;

(c) removing the requirement to disclose a sensitivity analysis because those disclosures make it easy to derive an entity's budgets.

C5. One GPF member said that the objective of the research project should not be to simplify the impairment testing, but to make the testing more robust.

June 2017 joint meeting of CMAC and GPF (Agenda Paper 5A and Agenda Paper 5B)

C6. The staff sought feedback from CMAC and GPF members on the following possible approaches that the staff is considering as part of the Goodwill and Impairment research project.

(a) *additional disclosures about acquired businesses*—requiring entities to disclose the following information in the financial statements:

(i) key assumptions or targets supporting the purchase consideration and consequently the goodwill acquired in an acquisition (disclosure 1);

(ii) comparison of actual performance vis-à-vis the assumptions or targets for a specified number of years following the acquisition (disclosure 2); and

(iii) breakdown of carrying amount of goodwill by past acquisitions (disclosure 3).

(b) review of existing disclosure requirements in IAS 36.

(c) *indicator-only approach to testing goodwill for impairment*—providing relief from the mandatory annual quantitative impairment testing of goodwill by removing the requirement for entities to test goodwill for impairment when there are no indicators of possible impairment.

Additional disclosures about acquired businesses

Disclosures 1 and 2

C7. CMAC members generally supported the possible requirement to disclose more information about acquired business. However, many GPF members expressed concerns that for those disclosures to be meaningful an entity would have to disclose commercially sensitive information. Consequently, if the Board requires those disclosures, entities are likely to disclose only boilerplate information.

C8. A few GPF members argued that providing the disclosures for each individual acquisition would be difficult because post-acquisition integration could make it difficult for management to track those targets or assumptions vis-à-vis actual performance.

Disclosure 3

C9. CMAC members stated that disclosing a breakdown of goodwill by past acquisition can provide useful information. That information helps them in identifying the carrying amount of goodwill relating to acquisitions that they consider unsuccessful. However, GPF members questioned the usefulness of this information, especially long after an acquisition.

Review of existing disclosure requirements in IAS 36

C10. CMAC and GPF members generally supported the view that disclosure of a pre-tax discount rate is not useful as that rate is not observable and is generally not used for valuation purposes.

C11. One GPF member suggested that disclosure of sensitivity analysis should be removed because this disclosure could make it easy to derive an entity's budgets. However, other members did not support deletion of disclosure of sensitivity analysis.

Indicator-only approach to testing goodwill for impairment

C12. GPF members generally supported introducing an indicator-only approach. Some of them preferred removing entirely the requirement for a mandatory annual quantitative impairment test. Those members thought that requiring the quantitative test for the first few years after an acquisition is not useful because there is generally no impairment of goodwill during those initial years.

C13. Some GPF members suggested that the Board could require entities to perform the quantitative test less frequently than annually, for example every three years, and to use the indicator-only approach during the intervening periods. Those members think that this approach would be more robust than removing entirely the mandatory annual quantitative test.

C14. A few GPF members questioned the need for revisiting the basis in IAS 36 for the mandatory annual quantitative impairment test.

C15. A few CMAC members supported the indicator-only approach, together with a disclosure of the reasons that triggered the quantitative impairment test.

C16. Individual members suggested adding the following indicators of possible impairment:

(a) a steady decline in the ratio of book value to market value and a comparison of that ratio with those of peer group;

(b) loss of market share of key products; and

(c) change in key management personnel.

Other suggestions

C17. A few CMAC members suggested that the Board could consider requiring an entity to disclose a measure of total assets and liabilities for each reportable segment. That information would allow them to assess the return generated in each reportable segment and compare it with the average cost of capital. Currently, IFRS 8 *Operating Segments* requires an entity to report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. A few GPF members thought that such disclosures would be relevant only in certain industries.

C18. A few GPF members suggested that the staff should focus on the headroom (the amount by which the recoverable amount of a cash-generating unit (group of units) exceeds the carrying amount) to improve effectiveness of the impairment test. A simple approach could be to require entities to disclose the headroom annually. Investors can identify whether there is a declining trend in the headroom and perform their own impairment assessment. Currently, the headroom is disclosed only when a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause its (their) carrying amount to exceed its (their) recoverable amount.