

STAFF PAPER

June 2019

IASB[®] Meeting

Project	Goodwill and Impairment		
Paper topic	Cover paper		
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Purpose of this meeting

1. The purpose of this meeting is for the Board to decide the preliminary views it wishes to include in a Discussion Paper on the various ideas being explored in this project in accordance with the project objectives set by the Board in July 2018.

Agenda Papers for this meeting

2. This cover paper accompanies the following agenda papers:
 - (a) *Agenda Paper 18A—Better disclosures for business combinations:* This paper discusses the staff's suggestions to improve the disclosure objectives and disclosure requirements of IFRS 3.
 - (b) *Agenda Paper 18B—Reintroduction of amortisation of goodwill:* This paper discusses whether amortisation of goodwill should be reintroduced, replacing the impairment-only model that currently applies for goodwill.
 - (c) *Agenda Paper 18C—Presentation of total equity before goodwill subtotal:* This paper discusses whether a subtotal of total equity before goodwill be presented in the statement of financial position.
 - (d) *Agenda Paper 18D—Relief from mandatory annual impairment test:* This paper discusses whether to provide relief from the mandatory

annual quantitative impairment test for cash-generating units (CGUs) that contain goodwill and some identifiable intangible assets.

- (e) *Agenda Paper 18E—Value in use—cash flows from a future restructuring or a future enhancement:* This paper discusses whether to remove the restriction that excludes from the estimation of value in use of an asset (or a cash-generating unit) cash flows expected to arise from future restructuring or from a future enhancement.
- (f) *Agenda Paper 18F—Value in use—use of post-tax inputs:* This paper discusses whether to remove the explicit requirement to use pre-tax inputs and a pre-tax discount rate to calculate value in use.
- (g) *Agenda Paper 18G—Preliminary views:* This paper discusses the package of preliminary views the staff recommend the Board include in the Discussion Paper.

3. The Board will be asked in each of Agenda Papers 18A–18F to make an indicative decision on the preliminary view it wishes to include in the Discussion Paper on each topic discussed in those papers.
4. These indicative decisions will establish an indicative package of preliminary views the Board wishes to include in a Discussion Paper. Agenda Paper 18G will then ask the Board whether it agrees that this package of preliminary views be included in the Discussion Paper or whether to include a different package of preliminary views in the Discussion Paper.

AASB – improving the impairment testing model in IAS 36

5. A representative of the Australian Accounting Standards Board (AASB) presented the AASB Research Report 9 *Perspectives on IAS 36: A case for standard setting activity* for discussion at the April 2019 meeting of the Accounting Standards Advisory Forum (ASAF). Minutes of that discussion are included as an appendix to this paper.
6. The staff expect to draft for inclusion in the Discussion Paper a brief summary of that discussion, as background information for respondents. The papers for this meeting do not ask the Board any questions about that discussion.

Next steps

7. The staff plan to ask in the July 2019 Board meeting for permission to begin the balloting process for a Discussion Paper. The staff expect that the Discussion Paper will be ready for publication towards the end of 2019.

Appendix A—Extract of the minutes of discussion that took place at the April 2019 ASAF meeting

Improving the impairment testing model in IAS 36 Impairment of Assets

- A1. A representative of the AASB presented the AASB Research Report 9 Perspectives on IAS 36: *A case for standard setting activity* (Agenda Paper 13). The objective of the session was for the AASB to share the results of their research and seek feedback from other ASAF members. The AASB highlighted that regulators of several countries have noted impairment is a major contributor to financial surveillance restatements and audit quality inspection findings.
- A2. The majority of ASAF members (EFRAG, OIC, PAFA, GLASS, ANC, ASBJ and AcSB) did not support a fundamental review of IAS 36. Members' opinions on the various topics covered by AASB's paper, as follows:
- (a) the FRC member agreed with the recommendation in the research paper that the Board should clarify the purpose of impairment test, and not focus only on goodwill when looking at the impairment test. In this member's view, the purpose of the impairment test is to ensure that the carrying amounts of individual assets are not overstated. He believes that the notion of a cash-generating unit (CGU) is used only when the recoverable amount of individual assets cannot be determined in isolation.
 - (b) the EFRAG member did not think there was a need to clarify the purpose of the test.
 - (c) the ASBJ member added that if IAS 36 was revisited, this would require the Board to reconsider depreciation and amortisation in general and the scope of such a project would be too broad.
- A3. A Board member expressed an alternative view that in his mind the purpose of impairment testing is to assess the value of the business as a whole, as once the assets have been combined the value of each underlying asset in isolation is of limited interest.

- A4. The OIC, FRC, EFRAG, PAFA, ANC, KASB and AcSB members further commented that the issues experienced in practice relate primarily to implementation, rather than the principles, of the Standard. Specifically:
- (a) the OIC member highlighted that management optimism is an important factor contributing to limiting the effectiveness of impairment tests.
 - (b) the FRC member said that the focus of the project should be not on changing the purpose of the test but on ensuring the test is properly implemented in a way that meets its current purpose.
 - (c) the EFRAG member noted that there were mixed views among its members on whether additional guidance would be helpful. Some EFRAG members are concerned that providing additional guidance may limit the use of management judgement in performing impairment tests. Other EFRAG members would like the Board to provide more implementation guidance in the following areas:
 - (i) measurement of terminal value;
 - (ii) identification of CGUs; and
 - (iii) allocation of goodwill to CGUs.
 - (d) the PAFA member commented that if the principles of IAS 36 are applied, you should get the right answer.
 - (e) the ANC member commented that IAS 36 is difficult to apply and there is a lack of flexibility when CGUs are changed.
 - (f) the AcSB member noted that nothing in IAS 36 would prevent a preparer from implementing a robust impairment test. She believes that the Board should communicate the intent of IAS 36 with its stakeholders and maybe provide some best practice guidance.
 - (g) the KASB member commented that entities are often ignoring the requirement in IAS 36 to allocate goodwill to lower levels where possible. He believes that in practice entities are testing for goodwill impairment at the segment level, thus contributing to the shielding effect, and that this should be explored further.

A5. The OIC, FRC, EFRAG, PAFA, ANC and AcSB members agreed with some of the detailed proposals in the report, noting that targeted changes to certain aspects of IAS 36 are needed. Specifically:

- (a) the OIC, FRC, EFRAG, PAFA, ANC and AcSB members commented that the Board should revisit the requirements on tax inputs used in the value in use (VIU) calculations. The FRC and ANC members also agreed with the recommendation to clarify which tax attribute should be included in the VIU calculations. The AASB representative noted that just changing the disclosure requirements for pre or post tax rates would not resolve the underlying issues of incorporating tax into the impairment testing.
- (b) the EFRAG and FRC members supported the inclusion of restructuring cashflows in calculation of recoverable amount, whereas the OIC did not support this proposal since it would introduce more judgment. The FRC member cautioned that restrictions ought to be placed on the inclusion of such cash flows to avoid abuse.
- (c) the OIC, FRC and PAFA members commented that there is a need to improve the definition and identification of CGUs. The FRC member suggested that the objective of such improvement should be to identify CGUs at a level that is as disaggregated as possible.
- (d) the OIC member thought disclosure on subsequent performance would be useful for users, although after a period of time it will be difficult to identify what element of performance arises from the acquired business.
- (e) the FRC member thought the need for fair value less costs of disposal (FVLCD) could be removed. On the other hand, the EFRAG member commented that many respondents to the EFRAG discussion paper did not agree with a single model.

A6. A member of the technical staff commented on a suggestion in the report that the identification of CGUs is an arbitrary exercise, not connected to the purpose of the impairment test, or the methodologies used in assessing impairment. The report suggests linking instead to the level at which an entity's results are viewed and decisions are made internally. He queried whether testing at that level would

be connected any more clearly to the purpose of the impairment test, which is carried out at a CGU level only when independent cash flows arise at that level. The AASB representative noted that using management's views on the level at which the decision to retain or keep an asset, is more consistent with the value in use methodology.

A7. Other comments made by members are as follows:

- (a) the ARD member commented that the impairment approach should be simplified and she reiterated the importance of the project for the Chinese capital market.
- (b) the GLASS member commented that recent corporate events have demonstrated there is information value in impairment tests. He noted that although the market captures the effects of impairment before it is recognised, the market does not capture all. This is evidenced by market reactions to recent announcements of impairments by entities in his jurisdiction.
- (c) an AOSSG member commented that the existing impairment approach does not take account of the fact that goodwill diminishes over time and is replaced by internally generated goodwill. That member of AOSSG supports the reconsideration of amortisation of goodwill.

A8. In response to the discussion, the AASB representative noted that members have highlighted numerous areas for potential improvement and that may suggest that a fundamental review of IAS 36 is needed. She believes that making small changes within the existing Standard may not result in a cohesive Standard that makes sense when all the pieces are taken together.