STAFF PAPER

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IASB® meeting

Project	**Goodwill and Impairment**		
Paper topic	Project objective and scope		
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Purpose and structure of this paper

1. The purpose of this paper is to:

   (a) provide the International Accounting Standards Board (Board) with staff analysis on feedback regarding the objective and scope of the Board's Goodwill and Impairment project; and

   (b) ask the Board whether it agrees with the staff recommendation to not change the project objective and scope at this stage of the project.

2. The paper is structured as follows:

   (a) Background and feedback summary (paragraphs 3–10);

   (b) Staff analysis (paragraphs 11–48), including:

      (i) History of the project's objective and scope (paragraphs 12–18);

      (ii) Project objective (paragraphs 19–26); and

      (iii) Project scope (paragraphs 27–48);

   (c) Staff recommendation (paragraph 49); and

   (d) Question for the Board.

Background and feedback summary

Project Objective

3. Paragraph 1.7 of the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* states:

> The Board's overall objective is to explore whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make. Better information would help investors assess the performance of companies that have made acquisitions. Better information would also be expected to help investors more effectively hold a company's management to account for management's decisions to acquire those businesses.

4. Most respondents to the Discussion Paper who commented on the project's objective agreed. However, some respondents, notably in Germany and Japan, disagreed.

5. Respondents who disagreed said that in the Post-implementation Review (PIR) of IFRS 3 *Business Combinations*, the subsequent accounting for goodwill was assessed as a high priority area of focus; however providing better information about the subsequent performance of business combinations was assessed as a medium priority area of focus. Accordingly, in their view the objective should be to improve the effectiveness of the impairment test and not to improve disclosures about business combinations.

6. However, some other respondents said that the disclosures outlined in the Discussion Paper would help to partially address the perceived problem of impairment losses on goodwill being recognised 'too little, too late'[1]. These respondents said those disclosures could help users of financial statements (users) identify whether a business combination is performing below expectations in situations in which an entity has recognised no impairment loss on goodwill.

[1] Paragraphs 32–40 discuss what respondents mean when using the phrase 'too little, too late'.

Project scope

7. The scope of the project comprises:

   (a) improving disclosures about business combinations;

   (b) subsequent accounting for goodwill, including:

      (i) effectiveness of the impairment test of cash-generating units (CGUs) containing goodwill (impairment test);

      (ii) whether to retain the impairment-only model or reintroduce amortisation of goodwill; and

      (iii) simplifications (and improvements) to the impairment test; and

   (c) other topics—presentation of total equity excluding goodwill and the range of identifiable intangible assets recognised separately from goodwill in a business combination.

8. Some respondents commented on the project's scope. Many respondents commenting on the scope agreed with it. However, many respondents commenting on the project's scope said that they did not view the Board's preliminary views as a package of views with a unifying objective. Many of those respondents suggested considering disclosures separately from the subsequent accounting for goodwill.

9. In addition, some preparers said, in their view, cost appeared to be the only unifying objective of the project. These respondents said the Board appears to consider potential cost savings resulting from simplifying the impairment test sufficient to offset any potential additional cost resulting from adding disclosure requirements. However, those preparers said:

   (a) the potential additional costs resulting from the added disclosure requirements would likely be higher than any potential cost savings resulting from simplifying the impairment test; and

   (b) the Board should simplify the impairment test in a separate project that could be finalised before the other topics included in the Discussion Paper.

10. A few respondents commented on what, in their view, should be the Board's priority in this project:

    (a) a few respondents, including those noted in paragraph 5, suggested prioritising the subsequent accounting for goodwill.

    (b) a few respondents suggested not considering amortisation of goodwill further and instead focusing only on other topics included in the Discussion Paper. Those respondents said that the Board is unlikely to reach a consensus on this matter and continual changes to the subsequent accounting model for goodwill would add costs for preparers and users.

    (c) a few respondents suggested prioritising the improvement of disclosures about business combination.

Staff analysis

11. There are two aspects to this discussion—the project's objective and scope. While any discussion on the objective and scope is necessarily inter-related, we have discussed them separately in this paper. Our analysis discusses:

    (a) history of the project's objective and scope (paragraphs 12–18);

    (b) project objective (paragraphs 19–26); and

    (c) project scope (paragraphs 27–48).

History of the project's objective and scope

12. The Board completed its PIR of IFRS 3 and published the Report and Feedback Statement of the PIR of IFRS 3 (Feedback Statement) in June 2015. That report identified areas of focus for future consideration by the Board. Each area of focus was assessed as being of either high, medium or low significance.

13. As noted in that Feedback Statement, in February 2015 the Board decided to add four research projects to its agenda to consider:

    (a) effectiveness and complexity of testing goodwill for impairment (high priority area of focus);

(b) subsequent accounting for goodwill—impairment-only model versus amortisation and impairment model (high priority area of focus);

(c) challenges in applying the definition of a business (medium/high priority area of focus); and

(d) identification and fair value measurement of intangible assets such as customer relationships and brand names (medium/high priority area of focus).

14. At the February 2015 meeting the staff noted that the Board's Disclosure Initiative project would consider disclosure requirements to provide information about the subsequent performance of the acquiree (a medium priority area of focus).

15. In September 2015 the Board decided to combine its research projects on the effectiveness and complexity of testing goodwill for impairment, subsequent accounting for goodwill and the identification and fair value of intangible assets in one project—this Goodwill and Impairment project.

16. In October 2015 the Board asked the staff to investigate what information users need to know about goodwill and impairment. Agenda Paper 18B to the Board's November 2015 meeting states 'users appear to be particularly interested in assessing whether an acquisition has been successful, identifying what assumptions and projections formed the basis for the valuation (and hence support the goodwill figure) and assessing the accountability of management' and information provided applying IFRS 3 has limited usefulness because there is 'insufficient information to help them understand the subsequent performance of the acquired business and whether main targets/synergies of the acquisition are met, considered key to their analysis.' In March 2016 the Board discussed ways to improve the information required about business combinations (see Agenda Paper 18B to that meeting).

17. In May 2016 (see Agenda Paper 18 to the Board's May 2016 meeting) the staff recommended clarifying that the objective of the project is to 'consider whether information can be improved for investors without imposing costs that would exceed the benefits provided by the improvements'. The staff said this objective would highlight that the project is considering users' needs and would apply to all topics within the scope of the project, being:

(a) identification and measurement of intangible assets acquired in a business combination;

(b) subsequent accounting for goodwill (including the relative merits of an impairment-only model and an amortisation and impairment model); and

(c) improving the impairment requirements in IAS 36 *Impairment of Assets* (including simplifications to the impairment test, alternative impairment tests that could improve the effectiveness of the test and improving disclosures on goodwill and impairment).

18. Although discussions on improving the disclosures about business combinations was part of the Board's discussions on this project from an early stage, Agenda Paper 18A to the Board's July 2017 meeting first identifies the improvement of disclosures as a separate topic within this project (see paragraph 8 of that paper).

Project objective

19. The staff thinks the Board should not amend the project's objective at this stage of the project. As noted in paragraph 17, the project's objective has been developed to apply to all topics within the project's scope. The objective describes the desired outcome from the project—more useful information about business combinations at a reasonable cost. The staff disagrees that this objective has led to an undue focus on improving disclosures. The staff thinks this perception was not intended by the Board. More useful information about business combinations can result not just from improvements to disclosures but also from improvements to the subsequent accounting for goodwill and better information about intangible assets acquired in a business combination. Paragraphs 20–26 discuss factors the staff thinks might have contributed to a perception that the objective has led to an undue focus on disclosures.

Misconceptions about the project objective

20. The staff thinks some respondents might have perceived the project's objective as having led to an undue focus on disclosures because of the:

(a) wording in the Discussion Paper;

(b) project title; and

(c) timing of the Board's discussions.

Wording in the Discussion Paper

21. Paragraph IN24 of the Discussion Paper states (*emphasis added*):

> The Board's preliminary view on disclosures is *central* to its package of preliminary views, the overall aim of which is for companies to provide investors with better information about acquisitions and with a better understanding of the economics of these transactions.

22. The word 'central' might have led some to perceive disclosures as the main focus of the package of preliminary views rather than disclosures being a part of the project but no more (or less) important than other parts.

Project title

23. The project's title—'Goodwill and Impairment' could have given the impression that the project focuses on only the subsequent accounting for goodwill and does not consider other aspects of the accounting for business combinations. However, as can be seen from the history of the project (see paragraphs 12–18), the project has always been about more than just the subsequent accounting for goodwill. The project has always included consideration of for example, the accounting for intangible assets acquired in a business combination.

24. The project's title may have also led some to expect the objective of the project to explicitly refer to goodwill and impairment. However, the objective to provide more useful information to users about business combinations at a reasonable cost frames, and implicitly applies to, the Board's discussion on the subsequent accounting for goodwill.

25. If the Board decides during redeliberations to retain improving disclosures about business combinations as part of the project, the staff suggest changing the name of the project to better align with the project's scope. The Board could rename the project similarly to the name given to the Discussion Paper—that is, Business Combinations—Disclosures, Goodwill and Impairment.

Timing of the Board's discussions

26. The order in which the Board discussed topics within this project could also have contributed to this perception. For example, as noted in paragraphs 12–18, although the Board discussed all topics included within the project early on, in 2017 the Board began to focus more on the feasibility of developing a different impairment test at a reasonable cost as part of its work on improving the effectiveness of the impairment test. In July 2018, after tentatively concluding that developing a different impairment test would not be feasible, the Board refocused its work on other topics in the project (including continuing its work on improving disclosures). This may have led some to perceive that as the project progressed, improving disclosures became more of a focus than the subsequent accounting for goodwill.

Project scope

27. As noted in paragraphs 19–26, the project's objective applies to all topics within the project's scope and forms the basis of the Board's preliminary views for each of these topics. As discussed in paragraphs 7–10, some respondents said they do not consider some topics included in the Discussion Paper to be related and therefore suggested considering these topics in separate projects.

28. The staff thinks the Board should not change the project's scope at this stage of the redeliberations because:

    (a) the staff continues to agree with the Board that the topics included in the Discussion Paper are linked and form a package that together can contribute to meeting the project's objective. Considering the topics together in one project allows the Board to assess the combined cost and expected benefits of the project and to consider whether the outcome meets the project's objective.

    (b) as noted in paragraphs 15–17 of Agenda Paper 18G to the Board's May 2021 meeting, the topics are interlinked and the Board's decisions on some topics might depend on others. For example, the Board's views on amortisation and on simplifications (and improvements) to the impairment test may partly depend on its views on additional disclosures about the subsequent performance of a business combination.

(c) the history of the project (see paragraphs 12–18) shows that the Board has considered the topics in the Discussion Paper together from an early stage and respondents have not, in the staff's view, provided compelling evidence to suggest the topics should be considered separately.

29. The staff acknowledge that the project's scope might change in the future depending on the Board's decisions on particular topics. For example, the Board might decide not to consider intangible assets acquired in a business combination further as part of this project or the Board's decisions regarding the extent of any possible convergence with US Generally Accepted Accounting Principles (for example, whether any possible convergence would include disclosures). If the scope of the project changes, the Board could also develop a more specific objective depending on what remains within the project's scope. The staff will reconsider the project's objective and scope at a later stage as necessary.

30. Paragraphs 31–45 analyse factors the staff thinks might have led some respondents to suggest that disclosures about business combinations are unrelated to the subsequent accounting for goodwill in the context of this project. Paragraphs 46–48 analyse respondents' suggestion to consider the simplifications (and improvements) to the impairment test separately from other topics in the Discussion Paper.

Relationship between disclosures and the subsequent accounting for goodwill

31. The staff have identified factors that might have led some respondents to suggest that disclosures about business combinations and the subsequent accounting for goodwill are unrelated. These factors include:

(a) the meaning of 'too little, too late' (paragraphs 32–40);

(b) purpose of the impairment test (paragraphs 41–43); and

(c) location of disclosures about the subsequent performance of business combinations (paragraphs 44–45).

The meaning of 'too little, too late'

32. The Feedback Statement of the PIR of IFRS 3 identifies the 'effectiveness and complexity of testing goodwill for impairment' as a high priority area of focus for further work. Stakeholders often refer to this area of focus as the 'too little, too late' problem (although this phrase is not used in the Board's due process documents).

33. In outreach the staff have identified two meanings of the 'too little, too late' problem. The first is the problem described in the Feedback Statement of the PIR of IFRS 3:

> a 'lag' in the time between the impairment occurring and the impairment charge being recognised in the financial statements

34. This focuses purely on the timeliness of the recognition of an impairment loss—the relationship between an event that gives rise to an impairment and the time that impairment is reflected in an entity's financial statements.

35. However, some respondents—in particular those who consider goodwill to be a wasting asset—view the 'too little, too late' problem through the lens of recognition of expenses in an entity's income statement and consider the 'too little, too late' problem to mean that an entity does not recognise an expense representing the 'consumption' of goodwill on a timely basis.

36. These different interpretations of 'too little, too late' could contribute to respondents differing views on whether the information about subsequent performance of business combinations would contribute to solving the problem identified in the PIR of IFRS 3 (and therefore is related to other aspects of the Board's preliminary views).

37. Respondents described in paragraph 35 said information about the subsequent performance of business combinations will not contribute to solving the 'too little, too late' problem, as they define it, and is therefore unrelated to, and should be considered separately from, the subsequent accounting for goodwill.

38. However, the staff think the problem the Board is attempting to resolve in this project is that described in the Feedback Statement of the PIR of IFRS 3. Information about the subsequent performance of business combinations could contribute to solving some aspects of that problem. One result of impairment losses of goodwill being recognised after the event that caused the impairment is that users might interpret that the lack of an impairment loss to mean that the business combination is performing

well and in line with management's expectations. However, that might not always be the case if recognition of an impairment loss of goodwill is delayed. Information about the subsequent performance of the business combination might solve that aspect of the problem. In particular, information about the subsequent performance of business combinations could assist users in determining whether the business combination is performing as expected, regardless of whether the entity recognises an impairment loss.

39. If viewed through the lens described in paragraph 38, disclosures about the subsequent performance of a business combination would contribute to the Board's attempts to improve the effectiveness of the impairment test of CGUs containing goodwill. The disclosures are therefore related to the accounting for goodwill and impairment.

40. Further, as noted in paragraph 17, prior to disclosures about business combinations being identified separately as a topic in the project, the Board considered disclosures as part of its work on improving the impairment test.

Purpose of the impairment test

41. A few respondents said that the Board's preliminary views on disclosures do not solve concerns about the impairment test of CGUs containing goodwill. Those respondents said that the Board's preliminary views on disclosures would result in entities providing information about the success of a business combination rather than the related but different issue on the recoverability of goodwill. Those respondents view the problem identified in the Feedback Statement (see paragraphs 32–40) as referring specifically to the recoverability of goodwill.

42. However, the staff continue to think that the performance of business combinations and the recoverability of goodwill are related—information about the subsequent performance of a business combination provides users with information they can use in assessing the recoverability of goodwill. This is also evident from the suggestion of some respondents to use the information that would be disclosed about the subsequent performance of business combinations as an indicator of potential impairment that would require an entity to perform a quantitative impairment test.

43. The staff also note that the purpose of the impairment test in IAS 36 is to ensure that the carrying value of the assets in a CGU as a whole is recoverable. The impairment test of CGUs containing goodwill is not designed to specifically test the recovery of goodwill in isolation.

Location of disclosures about subsequent performance

44. Many respondents who suggested considering additional disclosures about the subsequent performance of business combinations separately from the subsequent accounting for goodwill also suggested providing information about the subsequent performance of business combinations in management commentary rather than in the financial statements. These respondents typically said that the information is unrelated to assets and liabilities recognised on the entity's statement of financial position. This could contribute to their view about why disclosures about the subsequent performance of acquisitions are not linked to the subsequent accounting for goodwill.

45. The staff will provide the Board with a full analysis about disclosing information about the subsequent performance of business combinations in financial statements at a future meeting. The staff's initial view is that information about management's objectives and targets for the business combination provide users with information about the assets recognised in a business combination, including goodwill. Such information might provide users with information to assess whether the carrying value of those assets is recoverable.

Considering simplifications separately from other topics

46. The project's objective (see paragraph 3) is relevant to those respondents who suggested considering simplifications to the impairment test separately from other topics. The project's objective is to improve, at a reasonable cost, the information an entity provides to users about business combinations. This includes considering whether the Board can reduce the cost of the package as a whole through simplifying and removing any requirements in IFRS Standards that do not provide useful information to users.

47. The Board considered its preliminary views on simplification of the impairment test, particularly in relation to changes to the way an entity estimates value in use to be

beneficial not only in terms of simplifying the application of IFRS Standards but also in terms of improving the information an entity provides to users.

48. In other words, the Board's preliminary views on simplification are (a) not only about cost savings but are linked to the objective of improving information an entity provides about business combinations at a reasonable cost, and (b) part of a package that contributes to the objective. Accordingly, the staff see no basis to consider the simplifications (and improvements) to the impairment test described in the Discussion Paper separately from the other topics within the scope of the project.

Staff Recommendation

49. The staff recommend that the Board not change the project's objective and scope at this stage of the project. The project's objective should continue to be to explore whether entities can, at a reasonable cost, provide users with more useful information about the business combinations those entities make. The staff thinks this objective provides the framework through which the Board can make decisions on all aspects of the project's scope. At this stage of the project, the project's scope would continue to comprise:

    (a) improving disclosures about business combinations;

    (b) subsequent accounting for goodwill, including:

        (i) effectiveness of the impairment test of CGUs containing goodwill;

        (ii) whether to retain the impairment-only model or reintroduce amortisation of goodwill; and

        (iii) simplifications (and improvements) to the impairment test; and

    (c) other topics—presentation of total equity excluding goodwill and the range of identifiable intangible assets recognised separately from goodwill in a business combination.

Question for the Board
Does the Board agree with the staff recommendation set out in paragraph 49?