STAFF PAPER

April 2022

IASB® meeting

Project	**Goodwill and Impairment**		
Paper topic	Cover paper and background		
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Introduction and purpose of this meeting

1. The objective of the IASB's Goodwill and Impairment project is to explore whether entities can, at a reasonable cost, provide users of financial statements (users) with more useful information about the business combinations those entities make. The International Accounting Standards Board (IASB) is considering how to meet this objective by considering changes to disclosure requirements about business combinations, the subsequent accounting for goodwill (that is whether to reintroduce amortisation of goodwill) and other aspects of the accounting for business combinations.

2. In September 2021 the IASB decided to prioritise, amongst other things, performing further work to make decisions on the package of disclosure requirements about business combinations and to then redeliberate its preliminary view that it should retain the impairment-only model to account for goodwill. As part of the IASB's work on the package of disclosure requirements we have performed further research on the practical concerns raised by stakeholders on the IASB's preliminary views to require entities to disclose information about the subsequent performance of business combinations and quantitative information about synergies expected from business combinations. The Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* included those preliminary views.

3. The purpose of this meeting is to provide the IASB with a summary of our research. Paragraphs 27–30 provide information about the project plan and how this research is relevant to that plan.

4. This paper summarises:

   (a) the preliminary views (paragraphs 5–13);

   (b) the research we performed (paragraphs 14–25);

   (c) the papers for this meeting (paragraph 26);

   (d) next steps (paragraphs 27–30); and

   (e) proposals, feedback and tentative decisions to date (Appendix).

The IASB's preliminary views

5. During the post-implementation review of IFRS 3 *Business Combinations*, stakeholders said entities often apply the disclosure requirements of IFRS 3 mechanically as a checklist. The resulting disclosures can be 'boilerplate' and despite being extensive, provide insufficient information. Users said they need better information to help them understand a business combination and its subsequent performance. Information about management's objectives for a business combination and whether those objectives are being met would be useful and would help users assess:

   (a) management's ability to realise expected benefits from a business combination; and

   (b) whether management paid a reasonable price for the acquired business. Such information would allow users to assess performance and more effectively hold management to account for its decision to acquire a business.

6. In response, the IASB considered possible improvements to the disclosure requirements in IFRS 3. The Discussion Paper set out the IASB's preliminary views on this matter, including:

   (a) more specific disclosure objectives (paragraphs 7–8);

(b) requirements to disclose information about the subsequent performance of a business combination (paragraph 9–10); and

(c) requiring additional quantitative information about expected synergies from a business combination (paragraphs 11–13).

Disclosure objectives

7. Paragraphs 59 and 61 of IFRS 3 contain the disclosure objectives for IFRS 3:

> 59 The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either:
>
> (a) during the current reporting period; or
>
> (b) after the end of the reporting period but before the financial statements are authorised for issue.
>
> ...
>
> 61 The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods.

8. For reasons noted in paragraph 5, the IASB's preliminary view is to add disclosure objectives that would require an entity to provide information to help users understand:

(a) the benefits that an entity's management expected from a business combination when agreeing the price to acquire a business; and

(b) the extent to which a business combination is meeting management's objectives.

Subsequent performance of business combinations

9. Paragraph B64(d) of IFRS 3 requires an entity to disclose, amongst other things, the primary reason for a business combination. Paragraph 2.9 of the Discussion Paper

notes that this requirement may result in entities providing some information about management's objectives, but that information is unlikely to be specific enough to help users assess the subsequent performance of a business combination.

10. For this reason, the IASB's preliminary view is that it should:

    (a) replace that requirement with a requirement to disclose:

        (i) the strategic rationale for a business combination; and

        (ii) management's objectives for the business combination.

    (b) add a requirement to disclose:

        (i) in the year in which a business combination occurs, the metrics management will use to monitor whether the business combination's objectives are being met[1]; and

        (ii) in subsequent periods, the extent to which management's objectives for that business combination are being met using those metrics for as long as management monitors the business combination against those objectives.[2]

Expected synergies

11. Paragraph B64(e) of IFRS 3 requires an entity to disclose, in the year in which a business combination occurs, a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from the business combination. Users said this requirement often results in entities providing an unhelpful generic description. Users said the information they want is not about goodwill itself, but information that helps them better understand why an entity paid the price it did for the acquired business.

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[1] The preliminary view (see paragraph 2.25 of the Discussion Paper) states that if the acquired business is integrated with the acquirer's business, information about the subsequent performance of the acquisition used by management may be based on the combined business.

[2] The preliminary view (see paragraph 2.45 of the Discussion Paper) also included other requirements that would apply if management does not monitor whether its objectives for the business combination are being met, if it stops monitoring whether its objectives are being met and if it changes the metrics it uses to monitor whether its objectives are being met.

12. For this reason, the IASB's preliminary view is that it should require an entity to disclose, in the year in which a business combination occurs:

    (a) a description of synergies expected from combining the operations of the acquired business with the entity's business;

    (b) when the synergies are expected to be realised;

    (c) the estimated amount or range of amounts of those synergies; and

    (d) the estimated cost or range of costs to achieve those synergies.

13. In response to concerns that synergies are often difficult to quantify, paragraph 2.66 of the Discussion Paper notes the IASB's expectation that management would have estimated expected synergies in agreeing the price for a business. An entity would not be required to provide a single point estimate but could provide a range.

Research performed by the staff

14. We undertook two elements of research on this topic. We:

    (a) reviewed information disclosed by entities (paragraphs 16–20); and

    (b) developed staff examples and discussed them with stakeholders (paragraphs 21–25);

15. Agenda Paper 18A to this meeting documents the findings of our research. In addition to these two elements, we also:

    (a) discussed specific aspects of the preliminary views related to improving disclosure requirements in IFRS 3 with the Accounting Standards Advisory Forum (ASAF), Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) members at their meetings in November and December 2021—the appendices to Agenda Paper 18A include the questions we asked and the feedback we received; and

    (b) considered other relevant information and evidence, such as academic studies or other publications, that came to our attention—Agenda Paper 18A incorporates the relevant findings.

Review of disclosures

16. To help the IASB better understand existing practice, we reviewed information entities currently disclose about business combinations for a sample of 24 large business combinations.

17. To select our sample, we:

    (a) obtained a list of business combinations completed between 2017 and 2020 from Capital IQ for jurisdictions in which entities apply IFRS Accounting Standards and the same information for entities based in the US that apply US Generally Accepted Accounting Principles (GAAP).

    (b) selected the 10 largest business combinations for which information was publicly available from entities that apply IFRS Accounting Standards and the five largest business combinations from entities based in the US applying US GAAP. Information for some business combinations were not available because, for example, the acquiring entity is state-owned and does not produce publicly available financial statements.

18. To obtain a wider and appropriately balanced sample we also reviewed publicly available information about the largest business combination in some other jurisdictions that require or permit the application of IFRS Accounting Standards.

19. The table below summarises the business combinations reviewed by jurisdiction and industry:

Jurisdiction	**No. of transactions**	**Industry**	**No. of transactions**
Australia	1	Aerospace and Defence	2
Brazil	2	Chemicals	2
Canada	2	Consumer goods	3
France	2	Extractives	1
Germany	2	Financial services	2
Hong Kong	1	Food and drink	3
India	1	Manufacturing	1
Japan	1	Media and entertainment	2
Mexico	1	Pharmaceutical	3
Saudi Arabia	1	Real estate	2

South Africa	1	Services	3
United Kingdom	3		
United States	5		
South Korea	1		
Total	**24**		**24**

20. For each of these business combinations, we reviewed information disclosed in financial statements, management commentary, investor presentations and press releases.

Staff examples

21. We developed two examples illustrating how we think an entity would apply the preliminary views (see Agenda Paper 18C to this meeting). The staff examples focused on the preliminary views described in paragraphs 5–13 and did not represent a complete set of information that would be disclosed applying IFRS 3 and the preliminary views. The staff examples were based on feedback from fieldwork on the preliminary views conducted during the comment period for the Discussion Paper and our review of information disclosed by entities (see paragraphs 16–20).

22. To gather feedback, we invited the following to one-to-one meetings:

    (a) all CMAC, GPF and IFRS Interpretation Committee members; and

    (b) users and preparers who submitted comment letters on the Discussion Paper.

23. We held one-to-one meetings with three auditors, 24 preparers and nine users.

24. The following table provides further information by jurisdiction and industry of the preparers we met:

Jurisdiction	No. of entities	Industry	No. of entities
Australia	1	Chemicals	1
Brazil	1	Extractives	4
Canada	3	Financial services	6
China	1	Food and drink	2
France	2	IT	5
Germany	2	Logistics	1
India	3	Manufacturing	3
Japan	2	Pharmaceutical	1
South Africa	1	Telecommunications	1
Sweden	1		
Switzerland	3		

United Arab Emirates	1		
United Kingdom	2		
United States	1		
Total	**24**		**24**

25. We also discussed the staff examples at the ASAF meeting in December 2021 and used those examples as the basis for an outreach request we sent to regulators (members of the International Organisation of Securities Commissions).

Papers for this meeting

26. We will discuss the following papers in this meeting:

    (a) Agenda Paper 18A: Feedback from additional outreach on disclosures—summarises feedback from our research described in paragraphs 14–25.

    (b) Agenda Paper 18B: Possible ways forward—our analysis on possible ways forward for the IASB’s preliminary views to improve disclosure requirements about business combinations.

    (c) Agenda Paper 18C: Staff examples—the staff examples we discussed with stakeholders. This paper is for information only and does not contain a question for the IASB.

Project next steps

27. In the remainder of H1 2022 we plan to:

    (a) provide the IASB with a summary of feedback on the specific aspects of the subsequent accounting for goodwill the IASB asked us to research further:

        (i) whether it is feasible to reliably estimate the useful life of goodwill and the pattern in which goodwill diminishes; and

        (ii) the potential effects of derecognising significant amounts of goodwill on transition to an amortisation-based model were the IASB to decide to reintroduce amortisation.

(b) ask the IASB to decide on whether to proceed with its preliminary views to add disclosure requirements for entities to provide information about the subsequent performance of business combinations and quantitative information about expected synergies.

28. In H2 2022 we plan to ask the IASB:

(a) to decide on the subsequent accounting for goodwill; and

(b) whether to move the project from the research phase to the standard-setting phase.

29. After those tentative decisions we will ask the IASB to make tentative decisions on other aspects of the project. For example, about the effectiveness of and simplifications to the impairment test in IAS 36 *Impairment of Assets* and the recognition of intangible assets acquired in a business combination.

30. Once the IASB has made tentative decisions on all aspects of the project we will ask the IASB whether the package as a whole meets the project objective.

Appendix—Summary of proposals, feedback and tentative decisions

Topic	Summary of the IASB's preliminary view	Summary of feedback	Tentative decisions
Objective and scope	The project's objective is to explore whether an entity can, at a reasonable cost, provide users of financial statements (users) with more useful information about the business combinations those entities make.	See Agenda Paper 18A to the IASB's March 2021 meeting Most respondents who commented on the project's objective agreed. However, some respondents, notably in Germany and Japan, disagreed. 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 IASB'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.	June 2021 The IASB tentatively decided to leave the objective of the project unchanged from that described in the Discussion Paper and to make no changes to the project's scope at this stage. September 2021 The IASB decided to prioritise performing further work to: a. make tentative decisions on the package of disclosures about business combinations; and b. analyse specific aspects of the feedback on the subsequent accounting for goodwill.
Disclosure on the subsequent performance of business combinations	The IASB's preliminary view is that it should develop proposals to: (a) amend IFRS 3 *Business Combinations* to replace the requirement to disclose the primary reasons for a business combination with a requirement for an entity to disclose the strategic rationale for undertaking a business combination and management's objectives for the business combination.	See Agenda Paper 18C to the IASB's April 2021 meeting Many respondents, including almost all users, agreed that an entity should be required to provide additional information about the subsequent performance of business combinations and with basing that information on what an entity's management review. However, many respondents, including many preparers, had concerns about the cost of providing this information. In addition, many respondents said information about the performance of business combinations should be provided in an entity's management commentary rather than financial statements.	October 2021 The IASB tentatively decided that, based on the *Conceptual Framework for Financial Reporting*, information can be required in financial statements about the benefits an entity's management expects from a business combination and the extent to which management's objectives are being met—such as information about the subsequent performance of a business combination, and

Topic	Summary of the IASB's preliminary view	Summary of feedback	Tentative decisions
	(b) add a requirement for companies to disclose in the year in which a business combination occurs, the metrics that management will use to monitor whether its objectives are being met and in subsequent years the extent to which management's objectives are being met using those metrics.		quantitative information about expected synergies.
Improvements to existing IFRS 3 disclosure requirements	The IASB's preliminary view is that it should develop proposals to add additional disclosure objectives to IFRS 3.	See [Agenda paper 18D]() to the IASB's April 2021 meeting Of the IASB's other preliminary views on disclosures, the requirement to disclose additional quantitative information about synergies attracted most comment. The IASB received mixed feedback on this preliminary view. Respondents generally agreed with the IASB's preliminary views that it should add new disclosure objectives and a requirement to disclose debt and pension liabilities obtained in a business combination. There was mixed feedback on the IASB's preliminary views on information about the contribution of the acquired business.	[October 2021]() The IASB tentatively decided that, based on the *Conceptual Framework for Financial Reporting*, information can be required in financial statements about the benefits an entity's management expects from a business combination and the extent to which management's objectives are being met—such as information about the subsequent performance of a business combination, and quantitative information about expected synergies.
Improvements to existing IFRS 3 disclosure requirements	The IASB's preliminary view is that it should develop proposals to amend paragraph B64(e) of IFRS 3 to require a company to disclose the estimated amount or range of amounts of expected synergies arising from the business combination;		[October 2021]() The IASB tentatively decided that, based on the *Conceptual Framework for Financial Reporting*, information can be required in financial statements about the benefits an entity's management expects from a business combination and the extent

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			to which management's objectives are being met—such as information about the subsequent performance of a business combination, and quantitative information about expected synergies. November 2021 The IASB tentatively decided: a. not to define 'synergies'. b. not to make changes to its preliminary view as a result of feedback on other specific aspects of its preliminary view. For the purpose of testing staff examples the IASB decided that the examples should illustrate disclosure of information about: a. total expected synergies disaggregated by nature; for example, total revenue, total cost and totals for other types of synergies; and b. when the benefits expected from the synergies are expected to start and how long they will last (which would require an entity to identify whether those synergies are expected to be one-off or recurring).
Improvements to existing IFRS 3	The IASB's preliminary view is that it should develop proposals to amend paragraph B64(i) of IFRS 3 to specify that liabilities arising from financing		November 2021 The IASB tentatively decided to achieve the objective of its preliminary view by not specifying

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disclosure requirements	activities and defined benefit pension liabilities are major classes of liabilities.		that these liabilities are major classes of liabilities but instead by proposing to amend: a. paragraph B64(i) of IFRS 3 to remove the term 'major'; and b. paragraph IE72 of the Illustrative Examples accompanying IFRS 3 to illustrate liabilities arising from financing activities and defined benefit pension liabilities as classes of liabilities assumed.
Improvements to existing IFRS 3 disclosure requirements	The IASB's preliminary view is that it should retain the requirement for an entity to disclose information about the contribution of the acquired business, with some amendments to the requirements.		November 2021 The IASB tentatively decided: a. to retain the requirement in paragraph B64(q) of IFRS 3. b. to explain the objective of the requirement in paragraph B64(q)(ii) of IFRS 3 but not to provide guidance on how the information required by paragraph B64(q)(ii) should be prepared. c. to specify in paragraph B64(q)(ii) of IFRS 3 that the basis that an entity applies in preparing the information required by that paragraph is an accounting policy. d. to replace the term 'profit or loss' in paragraph B64(q) of IFRS 3 with 'operating profit or loss'. 'Operating profit or loss' will be as defined in the IASB's Primary Financial Statements project. e. not to add a requirement to disclose information about cash

Topic	Summary of the IASB's preliminary view	Summary of feedback	Tentative decisions
			flows arising from operating activities.
Effectiveness of the impairment test	The IASB's preliminary view is that it is not feasible to design a different impairment test for cash-generating units containing goodwill that is significantly more effective than the impairment test in IAS 36 at recognising impairment losses on goodwill on a timely basis and at a reasonable cost.	See Agenda Paper 18B to the IASB's May 2021 meeting Most respondents agreed with the IASB's preliminary view that it is not feasible to design a different impairment test that is significantly more effective than the impairment test of cash-generating units containing goodwill in IAS 36 at a reasonable cost. However, many of those respondents suggested how the IASB could improve the application of the impairment test in IAS 36. In particular, many respondents suggested ideas for additional disclosure requirements to combat management over-optimism and suggested the IASB develop additional guidance to improve the level at which goodwill is allocated to cash-generating units to reduce the 'shielding' effect described in the Discussion Paper.	N/A
Subsequent accounting for goodwill	By a small majority (eight out of 14 IASB members), the IASB reached a preliminary view that the IASB should retain the impairment-only model rather than reintroduce amortisation of goodwill.	See Agenda Paper 18C to the IASB's May 2021 meeting Respondents remain divided on whether the IASB should reintroduce amortisation of goodwill. Many respondents agreed with the IASB's preliminary view to retain the impairment-only approach but many other respondents disagreed with the IASB's preliminary view and instead advocated reintroducing amortisation of goodwill.	N/A
Simplifying the impairment test	The IASB's preliminary view is that it should develop proposals to: • reduce the cost and complexity of performing the impairment test by providing entities with relief from having to perform an annual quantitative impairment test for cash-generating units containing goodwill if there is no indication that an impairment may have occurred; and	See Agenda Paper 18D to the IASB's May 2021 meeting Most respondents, including some preparers, did not support the IASB's preliminary view that it should implement an indicator-based impairment test for goodwill. However, many of those who disagreed also said that the cost-benefit could be re-evaluated if the IASB decides to amortise goodwill. Respondents generally welcomed the IASB's preliminary views on simplifying and improving how value in use should be estimated.	N/A

Topic	Summary of the IASB's preliminary view	Summary of feedback	Tentative decisions
	• reduce cost and complexity, and to provide more useful and understandable information by simplifying the requirements for estimating value in use.		
Presenting total equity excluding goodwill	In the IASB's preliminary view, it should develop a proposal to require an entity to present on its statement of financial position the amount of total equity excluding goodwill. This amount would likely be presented as a free-standing item, and not as a subtotal, or line item, within the structure of the statement of financial position.	See Agenda Paper 18E to the IASB's May 2021 meeting Almost all respondents disagreed with the IASB's preliminary view that it should require an entity to present in its statement of financial position an amount representing total equity excluding goodwill. In their view, users can easily calculate that amount and presenting that amount could cast doubt on whether goodwill is an asset.	N/A
Intangible assets acquired in a business combination	The IASB's preliminary view is that it should not change the recognition criteria for identifiable intangible assets that are acquired in a business combination	See Agenda Paper 18E to the IASB's May 2021 meeting Most respondents who commented on the question, including many users, agreed with the IASB's preliminary view not to develop such a proposal. In their view, goodwill and other intangible assets acquired in a business combination are different in nature and recognising these assets separately provides users with better and more useful information.	N/A

A1. In addition, the staff provided the IASB with a summary of feedback from users (Agenda Paper 18B to the IASB's April 2021 meeting) and a summary of academic evidence (Agenda Paper 18F to the IASB's May 2021 meeting).