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## IASB<sup>®</sup> meeting

Date	<b>December 2022</b>
Project	<b>Goodwill and Impairment</b>
Topic	<b>Identifiable intangible assets acquired in a business combination</b>
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB *Update*.

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## Purpose and structure

1. The purpose of this paper is to provide the International Accounting Standards Board (IASB) with our analysis of feedback to the IASB's preliminary view to not change, in this project, the recognition criteria for identifiable intangible assets that are acquired in a business combination. The preliminary view was expressed in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*.
2. We ask whether the IASB agrees with our recommendation that the IASB maintains its preliminary view and therefore does not change, in this project, the recognition criteria for identifiable intangible assets that are acquired in a business combination.
3. This paper is structured as follows:
  - (a) Background (paragraphs 4–10);
  - (b) Staff Analysis (paragraphs 11–16); and
  - (c) Staff recommendation and question for the IASB (paragraph 17).

## Background

### The preliminary view

4. IFRS 3 *Business Combinations* requires an entity to recognise, separately from goodwill, all identifiable 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.
5. In developing its preliminary view the IASB considered feedback from the Post-implementation Review (PIR) of IFRS 3. In particular:
  - (a) changing the requirements would reduce costs and complexity for entities by minimising the need to identify and value particular intangible assets (paragraph 5.19 of the Discussion Paper); and
  - (b) users of financial statements (users) had expressed concerns that information about some intangible assets might not be useful (paragraph 5.17 of the Discussion Paper) because:

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- (i) there are concerns about the level of measurement uncertainty in estimating the fair value of these items;
    - (ii) some identifiable intangible assets acquired in a business combination are similar to goodwill;
    - (iii) some users believe that amortising particular intangible assets results in double counting of expenses because subsequent costs incurred in maintaining these assets are recognised as an expense in the same period as the amortisation expense; and
    - (iv) amortising particular acquired intangible assets makes it difficult to make comparisons with companies that grow organically and that do not recognise internally generated intangibles.
  6. The IASB considered how including some intangible assets in goodwill could resolve these concerns. However, for reasons listed in paragraphs 5.21–5.27 of the Discussion Paper, the IASB concluded it did not have compelling evidence that it should permit or require some identifiable intangible assets to be included in goodwill.
  7. In paragraph 5.24 of the Discussion Paper the IASB noted that considering concerns of investors who want to compare entities that grow by acquisitions more easily with entities that grow organically is outside the scope of this project and that if stakeholders would like the IASB to consider adding to its work plan a broader project on intangible assets, they would have the opportunity to explain why during the Third Agenda Consultation.

## Feedback

8. Paragraphs 16–33 and 42–44 of [Agenda Paper 18E](#) to the IASB's May 2021 meeting summarise feedback on the Discussion Paper. In summary:
  - (a) most respondents who commented on the preliminary view, including many users, agreed with the preliminary view. In their view, goodwill and other intangible assets acquired in a business combination are different in nature and that recognising these assets separately provides better and more useful information.
  - (b) some respondents, including some users, disagreed with the preliminary view. In their view, separately recognising acquired intangible assets does not provide useful information and the costs of doing so outweigh the benefits.
9. A few respondents said that if the IASB decides to reintroduce amortisation of goodwill, the IASB should also, on cost-benefit grounds, consider including some identifiable intangible assets acquired in a business combination in goodwill. In those respondents' view, if the same subsequent accounting approach is applied to both goodwill and some intangible assets, it would no longer be necessary to recognise those intangible assets separately from goodwill.

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10. Some respondents suggested undertaking a broader scope project on intangible assets due to the increasing importance of intangible assets in a knowledge-based economy. Respondents provided different views of what that project should address:
- (a) some respondents said the objective of such a project could include providing better disclosures about an entity's internally generated intangible assets.
  - (b) a few respondents said such a project should seek to align the accounting treatments for acquired and internally generated intangible assets so as to create a level playing field between entities that grow organically and entities that grow mainly through acquisitions.

### Staff analysis

11. Our analysis focuses on:
- (a) the need for change (paragraphs 12–14); and
  - (b) the IASB's research pipeline project on Intangible Assets (paragraphs 15–16).

### Need for change

12. We think there is no new or compelling evidence that suggests the IASB should reconsider its preliminary view. In particular, we note:
- (a) Most respondents who commented on the question, including many users, agreed with the IASB's preliminary view.
  - (b) The reasons given by those disagreeing with the preliminary view (see paragraphs 27–31 of [Agenda Paper 18E](#) to the IASB's May 2021 meeting) are reasons the IASB already considered in developing its preliminary views (see paragraph 5).
  - (c) Some respondents said if the IASB were to reintroduce amortisation for goodwill, it may wish to explore the possibility of including some identifiable intangible assets acquired in a business combination in goodwill on cost-benefit grounds (see paragraph 9). However, in [November 2022](#) the IASB tentatively decided not to explore amortisation of goodwill further.
13. In addition, we think that if the IASB were to explore in this project the possibility of allowing some intangible assets acquired in a business combination be included in goodwill, the IASB may need to spend significant time and resources exploring potential implications of such an inclusion. The IASB may need to consider, for example:
- (a) the types of identifiable intangibles acquired in a business combination that an entity would be required, or allowed, to include in goodwill (as paragraphs 5.18–5.21 of the Discussion Paper explain, there are conflicting views as to which intangible assets should be incorporated into goodwill);

- (b) what kind of disclosures, if any, an entity would be required to provide for any identifiable intangibles acquired in a business combination that are included in goodwill;
  - (c) how an entity should account for the sale of any identifiable intangible assets acquired in a business combination that were included in goodwill; and
  - (d) whether any transition arrangements would be necessary.
14. Exploring these implications may risk delaying progress on the project. It may also not be the most efficient use of the IASB's resources, especially because the IASB added a project on intangible assets to its research pipeline (see paragraphs 15–16).

### Research pipeline project on intangible assets

15. After considering feedback to the Third Agenda Consultation, the IASB decided, at its April 2022 meeting, to add to its research pipeline a project that will aim to comprehensively review the accounting requirements for intangible assets.
16. As noted in paragraph 5.24 of the Discussion Paper, considering intangible assets more broadly is outside the scope of the Goodwill and Impairment project. We continue to agree with the scope of this project and think it would be better to consider whether to respond to stakeholders' suggestions (see paragraph 10), as part of the project the IASB added to its research pipeline to respond to requests for a comprehensive review of the accounting requirements for intangible assets rather than consider those topics in this project.

### Recommendation

17. Based on our analysis in paragraphs 11–16, we recommend the IASB maintain its preliminary view and therefore does not change, in this project, the recognition criteria for identifiable intangible assets that are acquired in a business combination.

#### Question

Do you agree with our recommendation to maintain the IASB's preliminary view and therefore not change, in this project, the recognition criteria for identifiable intangible assets that are acquired in a business combination?