IFRS Accounting

Staff paper

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Date	**July 2023**
Project	**Business Combinations—Disclosures, Goodwill and Impairment**
Topic	**Effectiveness of impairment test—analysis of suggestions**
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Purpose and structure

1. The purpose of the paper is to set out our analysis and recommendations of whether the International Accounting Standards Board (IASB) should propose in an exposure draft any of the suggestions provided by respondents to the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* of ways to improve the effectiveness of the impairment test of cash-generating units (CGUs) containing goodwill in IAS 36 *Impairment of Assets* (impairment test).

2. This paper includes:

   (a) Summary of staff recommendations (paragraph 3);

   (b) Background (paragraphs 4–6);

   (c) Analysis of suggestions to reduce shielding (paragraphs 7–46);

   (d) Analysis of suggestions to reduce management over-optimism (paragraphs 47–78);

   (e) Staff recommendations and question for the IASB (paragraph 79); and

   (f) Suggestions not pursued (Appendix).

Summary of staff recommendations

3. As a result of our analysis in paragraphs 7–78 of this paper, we recommend the IASB:

   (a) replace ‘goodwill is monitored for internal management purposes’ in paragraph 80(a) of IAS 36 with ‘business associated with the goodwill is monitored for internal management purposes’;

   (b) provide limited guidance on what is meant by monitoring the business associated with goodwill when an entity applies paragraph 80(a) of IAS 36;

   (c) clarify that the reference to operating segment in paragraph 80(b) of IAS 36 is intended as a ceiling to the level that an entity determines applying paragraph 80(a);

   (d) clarify why IAS 36 permits allocating goodwill to groups of CGUs;

   (e) include an illustrative example explaining the difference between management monitoring ‘strategically important’ business combinations[1] for the purpose of subsequent performance disclosure and management monitoring a business associated with the goodwill for the purposes of impairment testing;

   (f) require an entity to disclose in which reportable segments CGUs containing goodwill are included; and

   (g) not pursue further any of the other suggestions analysed in this paper or included in the appendix to this paper.

Background

4. As explained in Agenda Paper 18, in the Discussion Paper the IASB identified two broad reasons for concerns about the possible delay in recognising impairment losses on goodwill:

[1] As described in the IASB’s tentative decisions on disclosures about business combinations—see Agenda Paper 18B to the IASB’s September 2022 meeting.

(a) management over-optimism; and

(b) shielding.

5. Many respondents to the Discussion Paper suggested ways to improve the application and effectiveness of the impairment test. We obtained additional feedback from members of the IASB's consultative groups and the IFRS Interpretations Committee (Committee) on suggestions that:

(a) could mitigate either of the two main reasons described in paragraph 4 the IASB identified for concerns; and

(b) could be implemented at a reasonable cost.

6. A description of the suggestions selected and feedback from stakeholders is provided in Agenda Paper 18B.[2]

Suggestions to reduce shielding

7. To help reduce shielding we investigated the following suggestions:

(a) Provide additional guidance on how goodwill is allocated to CGUs (paragraphs 9–39); and

(b) Require an entity to perform an impairment test when it reorganises its reporting structure in a way that changes the composition of one or more CGUs to which goodwill has been allocated (paragraphs 40–46).

8. Many national standard-setters suggested focusing on reducing shielding rather than on deterring management over-optimism. In their view, reducing shielding would result in a greater improvement in the timelier recognition of impairment losses on goodwill.

[2] Except for some small administrative changes, Agenda Paper 18B is unchanged from Agenda Paper 18D to the IASB's May 2023 meeting and has been included for ease of reference.

Additional guidance on how goodwill is allocated to CGUs

Existing requirements

9. Paragraph 80 of IAS 36 contains the requirements for allocating goodwill to CGUs or group of CGUs for the impairment test:

> 80 For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall:
>
> (a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
>
> (b) not be larger than an operating segment as defined by paragraph 5 of IFRS 8 *Operating Segments* before aggregation.

10. Paragraph BC140 of the Basis for Conclusions on IAS 36 confirms the IASB's intention that there should be a link between the level at which goodwill is tested for impairment and the level of internal reporting that reflects the way an entity manages its operations. Paragraph BC146 explains that when a business combination enhances the value of all of the acquirer's pre-existing CGUs, it would be wrong to conclude that goodwill can be tested only at the entity level.

Preliminary views and feedback

11. In developing its preliminary views in the Discussion Paper, the IASB considered:

    (a) whether to allow an entity to test goodwill for impairment at the entity level or the level of reportable segments; and

(b) whether to provide additional guidance on identifying CGUs and on allocating goodwill to CGUs.

12. The IASB's preliminary view was that it should not pursue these ideas because:

    (a) testing goodwill at a higher level could delay further the recognition of impairment losses of goodwill by increasing the effect of shielding; and

    (b) it would be difficult to provide guidance that could apply to all entities.

13. The feedback on these preliminary views can be found in paragraphs 8 and 9 of Agenda Paper 18B.

14. Agenda Paper 18B to the IASB's May 2021 meeting reported feedback on reasons why the impairment test might not be meeting stakeholder's expectations. Many respondents agreed that shielding is part of the reason and some said shielding is the main cause of impairment losses on goodwill being recognised 'too late'.

Analysis

15. We continue to agree with the preliminary view that testing goodwill at a higher level could increase shielding and delay further the recognition of impairment losses on goodwill. Feedback continues to support requiring goodwill to be allocated at the lowest level possible based on entities' internal reporting systems and therefore we do not recommend allowing an entity to test goodwill for impairment at the entity level or the level of reportable segments.

16. We also continue to agree with the preliminary view that it would be difficult to provide guidance on identifying CGUs and on allocating goodwill to CGUs that could apply to all entities. This is because it is intended that goodwill is allocated to CGUs in a way that reflects an entity's organisational structure and its internal reporting systems and entities are organised in many different ways.

17. However, there could be scope to clarify some of the requirements on allocating goodwill to CGUs to improve the application of the impairment test.

18. Many respondents to the Discussion Paper suggested providing guidance on how to allocate goodwill to CGUs and reconsidering the level at which the test is performed and we consider some of those suggestions further.

19. We have organised our analysis of those suggestions into the following sub-topics:

    (a) amending the requirements in paragraph 80 of IAS 36 to clarify (paragraphs 20–29):

        (i) the meaning of 'goodwill is monitored for internal management purposes' in paragraph 80(a) of IAS 36 or to replace it with another term; and

        (ii) the requirement in paragraph 80(b) of IAS 36 that the group of CGUs to which goodwill is allocated not be larger than an operating segment (as defined by paragraph 5 of IFRS 8 *Operating Segments*) is a safeguard; and

    (b) linking the level at which goodwill is tested for impairment with the level the business combination associated with the goodwill is monitored for the proposed disclosures about the subsequent performance of business combinations (paragraphs 30–39).[3]

Amending requirements in paragraph 80

20. As paragraph 8 notes, many national standard-setters suggested focusing on reducing shielding because it would result in timelier recognition of impairment losses on goodwill.

21. We found evidence that entities allocate goodwill for impairment testing purposes to operating segments as a default and that management do not specifically monitor goodwill. We think this can result in paragraph 80 of IAS 36 not being applied as intended.

[3] See Agenda Paper 18B to the IASB's September 2022 meeting.

22. One stakeholder said paragraph BC150B of the Basis for Conclusions on IAS 36 also contributes to the confusion of how paragraph 80 should be applied. Paragraph BC150B, when read in isolation, seems to suggest the lowest level that paragraph 80(a) refers to is to the lowest level of operating segments.

> […] The Board noted that the lowest level of the entity at which management monitors goodwill as required in paragraph 80(a) is the same as the lowest level of operating segments at which the chief operating decision maker regularly reviews operating results as defined in IFRS 8. […]

23. Paragraph BC150B of the Basis for Conclusions on IAS 36 was added as part of the *Improvements to IFRSs* issued in April 2009. The amendment clarified that the limit in paragraph 80(b) of not being larger than an operating segment was <u>before aggregation</u> permitted by paragraph 12 of IFRS 8. In our view, it should not be read as explaining the requirements in paragraph 80(a) or as setting out a general requirement on the lowest level at which an entity can monitor goodwill for the purpose of impairment testing. Instead, it is clarifying that the limit in paragraph 80(b) is the lowest level of operating segments the chief operating decision maker is revieing, that is before aggregation.

24. As summarised in paragraphs 16–20 of Agenda Paper 18B, stakeholders were generally supportive of suggestions to clarify some of the requirements in paragraph 80. However, there were some reservations and two auditors said that without additional guidance on the allocation of goodwill to CGUs the potential clarifications, although beneficial, would have limited effect on reducing shielding.

25. As explained in paragraph 16, we continue to think it would not be possible to provide comprehensive guidance on allocating goodwill to CGUs. This could limit the extent of the improvement any clarification of the requirements in paragraph 80 would provide.

26. However, some targeted changes to paragraph 80 might be relatively simple to make from a standard-setting perspective. These changes could improve the application of that paragraph and the allocation of goodwill for impairment testing purposes which in turn could help reduce shielding. Such clarifications could also help auditors and regulators better enforce these requirements—for example, one regulator said the notion of monitoring is difficult to understand and to enforce, and consequently additional guidance would be helpful.

27. In particular, we think the IASB should replace 'goodwill is monitored' in paragraph 80(a) with 'business associated with goodwill is monitored'. This would:

    (a) better describe the activity management is performing;

    (b) maintain the linkage of how goodwill is tested for impairment with how an entity is organised for internal reporting purposes; and

    (c) avoid goodwill being allocated at the operating segment level by default because an entity concludes its management do not monitor goodwill.

28. We also think the IASB should:

    (a) clarify that an entity is required to first apply paragraph 80(a) and determine the lowest level at which the business associated with goodwill is monitored for internal management purposes and only then apply paragraph 80(b) which acts as a ceiling to the level that an entity determined under paragraph 80(a). We think this will help avoid entities applying paragraph 80(b) as a default.

    (b) provide limited guidance on what is meant by monitoring the business associated with goodwill by clarifying that an entity would first identify the CGU or group of CGUs that is expected to benefit from the synergies of a business combination (represented by the goodwill). For those CGUs, the entity would then determine the lowest level discrete financial information about those CGUs is available which management is regularly reviewing. This would help entities allocate goodwill to a level that is consistent with how those entities report internally, which was the intent of IAS 36.

(c) clarify that IAS 36 allows an entity to allocate goodwill to groups of CGUs because goodwill arises in a business combination and a business often comprises a group of CGUs.

29. In summary, we think the IASB should:

(a) replace 'goodwill is monitored for internal management purposes' in paragraph 80(a) of IAS 36 with 'business associated with the goodwill is monitored for internal management purposes';

(b) provide limited guidance on what is meant by monitoring the business associated with goodwill when an entity applies paragraph 80(a) of IAS 36;

(c) clarify that the reference to operating segment in paragraph 80(b) of IAS 36 is intended as a ceiling to the level that an entity determines applying paragraph 80(a); and

(d) clarify why IAS 36 permits allocating goodwill to groups of CGUs.

Link the level goodwill is tested for impairment with the level the associated business combination is monitored

30. Some respondents to the Discussion Paper suggested linking the level at which goodwill is tested for impairment with the level the business combination associated with the goodwill is monitored for purpose of the proposed disclosures about the subsequent performance of business combinations.

31. As summarised in paragraph 24 of Agenda Paper 18B, stakeholders had mixed views on whether the IASB should pursue this suggestion. Hence, there is only limited support for this suggestion.

32. We agree with concerns raised by a few stakeholders and some IASB members at the May 2023 meeting that a direct link could have the unintended consequence of an entity testing goodwill at a higher level than the requirements in paragraph 80 intend because a business combination's performance might be monitored in its entirety whereas goodwill associated with that business combination might be allocated to

several different CGUs. We also think that, without further guidance, creating a link could lead to the misunderstanding that the level at which goodwill is allocated for impairment testing purposes should be the lowest level at which the key management personnel of the entity (as defined by IAS 24 *Related Party Disclosures*) is monitoring the business associated with goodwill for internal management purposes (this is also discussed in paragraphs 35–39).[4]

33. Requiring the level at which goodwill is allocated to CGUs for impairment testing to be no higher than the level at which management monitor performance of the business combination (for the purposes of the proposed disclosures) could be an alternative approach however, we think it could create a similar misunderstanding. The interaction of such a requirement with paragraph 80(b) could also be complex. We also think auditors would be able to challenge entities that have allocated goodwill to CGUs for impairment testing at a level that is higher than the level management is monitoring the business combination applying the disclosure requirements without an explicit prohibition in the IFRS Accounting Standard.

34. Therefore, we think the IASB shouldn't pursue the suggestion to explicitly link the level goodwill is tested for impairment with the level the business combination is monitored.

35. However, we think it would be helpful to explain the difference between management monitoring 'strategically important' business combinations (as proposed in the IASB's tentative decisions on disclosures about business combinations—see Agenda Paper 18B to the IASB's September 2022 meeting) and management monitoring the business associated with the goodwill for the purposes of impairment testing.

36. Although for some entities the level of management performing these two monitoring tasks may be the same, for others this might not be the case. We would not want entities to erroneously conclude that the revised wording in IAS 36 being suggested

[4] In its February 2023 meeting, the IASB tentatively decided to require an entity to disclose subsequent performance information about a business combination based on the information reviewed by an entity's key management personnel.

should be interpreted as meaning that goodwill should be allocated to the lowest level the key management personnel are monitoring the business, and that the monitoring being performed in the two proposals is the same.

37. Although both requirements use the terms ‘management’ and ‘monitoring’, the intentions of the requirements differ. In making tentative decisions on the management approach (see Agenda Paper 18A to the IASB’s February 2023 meeting) the IASB specified a senior level of management because it could help identify the most important information about a business combination. Conversely, for impairment testing purposes the intention is to identify the lowest level of management that monitor the business associated with the goodwill.

38. We think the IASB shouldn’t specify what level of management is meant by paragraph 80(a) because the level of management depends on how entities are organised and internally report and this will vary between different entities.

39. Instead, we think the IASB should clarify this difference and we think this is best done by adding an illustrative example to IAS 36.

Perform impairment test when goodwill is reallocated

40. As explained in paragraphs 25–27 of Agenda Paper 18B, a few stakeholders said entities might opportunistically reorganise their reporting structure and reallocate goodwill to avoid impairments of goodwill. To help limit opportunistic behaviour, we investigated whether entities should be required to perform an impairment test based on the previous reporting structure when a reorganisation occurs.

41. Paragraphs 29–36 of Agenda Paper 18B summarise feedback on whether to pursue this suggestion.

42. Stakeholders had mixed views on the usefulness and cost of this suggestion, and a few preparers said auditor scrutiny in this area should be sufficient.

43. There are likely to be incremental costs if an impairment test is required when a reorganisation occurs because the date of reorganisation might not align with the date of performing the annual impairment test.[5] Mixed feedback on the usefulness of such a test questions whether the benefits would exceed those costs.

44. There are also conceptual concerns with requiring such an impairment test to be performed. For example, it is questionable whether this is consistent with the forward-looking logic of the test in IAS 36 and whether it would be consistent with the requirement to perform the impairment test of an asset in its current condition. We think an impairment loss recognised on the previous reporting structure could be seen as theoretical and difficult to reconcile with other requirements in IAS 36 for an entity to estimate future cash flows that management expects to derive from the asset.

45. Some stakeholders said a reorganisation was an indicator of impairment. Adding this to the list of impairment indicators in paragraph 12 of IAS 36 could allow entities to make a judgement about the appropriateness of performing an impairment test based on facts and circumstances. However, we question how significant an improvement this would be given the concern this suggestion was designed to address—opportunistic reallocation of goodwill to avoid an impairment. We think it is likely that the indicator of impairment would have occurred prior to the reorganisation and hence stating that a reorganisation is an indicator of impairment might not have a significant effect.

46. Accordingly, we think the IASB shouldn't require an entity to perform an impairment test when it reorganises its reporting structure. We think opportunistic reallocation of goodwill is an application issue and does not require standard-setting. We think if a reorganisation occurs because of the poor performance (or likely poor performance) this should already be captured by a review of indicators of impairment or factored into the assumptions for the annual impairment test. It is unclear how prevalent an issue this is—only a few respondents to the Discussion Paper raised this concern—

[5] Paragraph 96 of IAS 36 requires the annual impairment test to be performed at the same time every year.

and we think requiring an impairment test for all reorganisations is not appropriate in the light of the feedback.

Suggestions to reduce management over-optimism

47. To help reduce management over-optimism we investigated the following suggestions:

    (a) requiring an entity to disclose a comparison of cash flow forecasts used in impairment tests in prior years with actual cash flows (paragraphs 48–61);

    (b) clarifying the requirement in paragraph 33 of IAS 36 to explain that cash flow projections based on the most recent financial budgets/forecasts still need to be based on reasonable and supportable assumptions (paragraphs 62–66);

    (c) improving the list of impairment indicators set out in paragraph 12 of IAS 36 (paragraphs 67–72); and

    (d) requiring an entity to disclose in which reportable segments the CGUs containing goodwill are included (paragraphs 73–78).

Comparison of past cash flow forecasts

48. As explained in paragraphs 38–39 of Agenda Paper 18B, stakeholders suggested requiring an entity to disclose a comparison of the cash flow forecasts used in past impairment tests with actual cash flows for a specified number of prior periods.

49. As summarised in paragraphs 41–50 of Agenda Paper 18B, stakeholders had mixed views on whether this suggestion could reduce management over-optimism.

50. In determining whether the IASB should require an entity to disclose this comparison we considered:

    (a) whether this comparison would provide useful information to reduce management over-optimism; and

(b) the cost of disclosing this information.

Usefulness of the comparison

51. Many stakeholders (particularly national standard-setters, auditors and preparers) raised concerns about the usefulness of the comparison. We agree with stakeholders that cautioned how the information provided applying this disclosure requirement should be interpreted. As several stakeholders noted, actual cash flows can be affected by several factors, many of which are outside management's control. Variances to prior forecasts do not necessarily indicate management over-optimism.

52. We also agree with stakeholders who said cash flows are not the only input in the impairment test and where the cash flows do not adequately capture risk, risk is factored into the discount rate. To fully understand whether management are over-optimistic, further information about how risk has been reflected in the discount rate used in the impairment test would also need to be provided.

53. The usefulness of the suggestion also depends on the period the comparison covers. If over-optimism is incorporated in the longer-term forecast or within the terminal value assumptions the comparison might not identify such over-optimism.

54. Some stakeholders said the suggested change is unnecessary because of the requirements already in IAS 36—for example the requirement in paragraph 34 to assess the reasonableness of assumptions on which the current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. Some stakeholders said this is a common audit procedure and an enforcement question and not information that should be disclosed in financial statements.

55. In developing its preliminary views in the Discussion Paper, the IASB considered the risk of over-optimism to be unavoidable, given the nature of the estimates required. IAS 36 contains requirements that reduce the risk that cash flow forecasts could be too optimistic. If estimates of cash flows are sometimes too optimistic, the IASB

considered that this is best addressed by auditors and regulators, not by changing IFRS Accounting Standards. We continue to think regulators and auditors are best placed to address over-optimistic cash flow forecasts.

56. Although many other stakeholders (particularly users and regulators) said the comparison could be useful, some of that feedback might be because the comparison would provide information that is useful for other purposes, not only for the purpose of identifying entities that are consistently over-optimistic and for reducing management over-optimism. For example, the information would also provide insight into the performance of CGUs which could represent a lower level than the information about performance users otherwise receive. The comparison would also provide information about how accurate management are at forecasting more generally, not just whether they are consistently over-optimistic.

57. Requesting this comparison could suggest there is an expectation that forecasts are supposed to turn out as expected, but it is unlikely that this would be the case. Several stakeholders said entities would be compelled to provide qualitative information to explain variances between actual and forecast cash flows. This would, for example, be needed to explain factors that are outside management’s control (see paragraph 51). This would change the nature of the information being provided from that originally envisaged by the suggestion.

Cost of disclosing the comparison

58. Many stakeholders commented on the costs of providing the comparison and whether it would expose entities to litigation risk. Most of these stakeholders (particularly preparers and auditors) expressed concerns about the cost of disclosing this comparison.

59. We agree with stakeholders who said entities could face incremental costs to collect and process the information necessary to disclose the comparison even though paragraph 34 of IAS 36 already requires management to assess the accuracy of past forecasts.

60. We also think there could be costs that were not anticipated in the original suggestion because management could need to explain any variances even when the variances were positive (actual cash flows were higher than forecast). There is also a risk that the information provided by this suggestion could be commercially sensitive or could increase litigation risk.

Summary

61. Based on our analysis, we think the IASB shouldn't explore this suggestion further. It is unclear whether the suggestion would significantly reduce over-optimism. Although there is some support for the suggestion, that might be because the information obtained from the suggestion has other uses. The suggestion is likely to be costly and there is not compelling evidence that the benefits of the suggested change would justify those costs.

Reasonable and supportable assumptions

62. As explained in paragraphs 51–52 of Agenda Paper 18B, stakeholders suggested providing more guidance on the requirements in paragraph 33 of IAS 36. In particular, a few respondents suggested providing additional guidance on the interaction between the requirements to base cash flow forecasts on (a) reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset, with greater weight given to external evidence; and (b) the most recent financial budgets/forecasts approved by management.

63. As summarised in paragraphs 54–55 of Agenda Paper 18B, stakeholders expressed mixed views on whether the IASB should provide more guidance on the interaction between the requirements in paragraph 33 of IAS 36. There were also mixed views whether the requirements in paragraph 33 conflict.

64. We think it is clear in IAS 36 that cash flow projections based on the most recent financial budgets or forecasts approved by management need to be based on

reasonable and supportable assumptions. We therefore agree with those stakeholders who said additional guidance would have limited benefit. For example, paragraph 38 of IAS 36 states that:

> In using information from financial budgets/forecasts, an entity considers whether the information reflects reasonable and supportable assumptions and represents management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset.

65. Similar to the previous suggestion (see paragraph 54) some stakeholders said existing requirements are clear, the consistency of assumptions used is scrutinised and challenged and the interaction of these two requirements is more of an enforcement issue. Although there is some merit in the comment that budgets or forecasts approved by management may be over-optimistic because they are also used to incentivise management, we think the concern this suggestion attempts to address is better dealt with by auditors and regulators.

66. Accordingly, we think the IASB shouldn't explore this suggestion further.

Indicators of impairment

67. As explained in paragraphs 56–59 of Agenda Paper 18B, stakeholders suggested reviewing the list of impairment indicators in paragraph 12 of IAS 36. In their view, a robust list of impairment indicators may help reduce management over-optimism in the impairment indicator assessment.

68. As summarised in paragraphs 61–64 of Agenda Paper 18B, feedback indicates limited support for changing the list of impairment indicators.

69. We agree with stakeholders who said the existing list is non-exhaustive and adding more indicators to the list might result in entities using it as a checklist.

70. There were only a few suggestions for specific indicators of impairment of CGUs containing goodwill to add to the list. If the IASB were to pursue this suggestion, it would need to perform further research to determine which indicators to add.

71. Given the IASB tentatively decided in its May 2023 meeting not to remove the requirement to perform a quantitative impairment test of CGUs containing goodwill annually, we also think updating the list of indicators in paragraph 12 of IAS 36 would have a limited effect on reducing management over-optimism.

72. Accordingly, we think the IASB should not explore this suggestion further. We think this suggestion would not significantly improve the effectiveness of the impairment test of CGUs containing goodwill.[6]

Segments to which goodwill is allocated [7]

73. As explained in paragraphs 65–67 of Agenda Paper 18B, stakeholders suggested requiring an entity to disclose the allocation of goodwill to different segments. This suggestion could provide information to help users better assess the reasonableness of the assumptions used in the impairment test of CGUs containing goodwill—for example, because users can compare these assumptions to the information they receive about reportable segments and to their own assumptions for those reportable segments.

74. Feedback from our outreach, summarised in paragraphs 69–74 of Agenda Paper 18B, indicates that stakeholders had mixed views on this suggestion. Most national standard-setters commenting, suggested not pursuing this idea, questioning whether this information would be useful and whether segment information would be comparable to information about CGUs. However, many users agreed with the

[6] The Climate-related Risks in the Financial Statements project will consider whether to add any indicators of impairment to paragraph 12 of IAS 36 within the scope of that project.

[7] This disclosure would only be required for entities if they report segment information in accordance with IFRS 8.

suggestion, saying the information would be useful, for example to help users understand whether assumptions in the impairment test are reasonable.

75. The suggestion would be simple to implement from a standard-setting perspective and evidence suggests that applying this disclosure requirement would not result in significant costs for preparers because entities are likely to already have this information and, as a few stakeholders said, some entities already disclose this information.

76. However, we acknowledge that a few stakeholders questioned the usefulness of the information and whether assumptions for CGUs containing goodwill can be compared to information about reportable segments. We agree this might depend on the size of the CGUs containing goodwill relative to the size of the reportable segments.

77. However, knowing which reportable segment goodwill has been allocated to in the year of acquisition could provide users with useful information that could, together with other information disclosed applying IFRS 3 *Business Combinations*, help them assess management's decision to acquire a business.[8] This therefore would align with the project's objective of providing better information about business combinations.

78. Accordingly, we think the IASB should proceed with this suggestion and propose requiring an entity to disclose in which reportable segments the CGUs containing goodwill are included, particularly because we think there is little cost to this suggestion.

[8] An entity would need to disclose this information in subsequent periods as well and it is likely this disclosure requirement would be added to the requirements in paragraph 134 of IAS 36.

Staff recommendations and question for the IASB

79. As a result of our analysis in paragraphs 7–78 of this paper, we recommend the IASB:

(a) replace ‘goodwill is monitored for internal management purposes’ in paragraph 80(a) of IAS 36 with ‘business associated with the goodwill is monitored for internal management purposes’;

(b) provide limited guidance on what is meant by monitoring the business associated with goodwill when an entity applies paragraph 80(a) of IAS 36;

(c) clarify that the reference to operating segment in paragraph 80(b) of IAS 36 is intended as a ceiling to the level that an entity determines applying paragraph 80(a);

(d) clarify why IAS 36 permits allocating goodwill to groups of CGUs;

(e) include an illustrative example explaining the difference between management monitoring ‘strategically important’ business combinations[9] for the purpose of subsequent performance disclosure and management monitoring a business associated with the goodwill for the purposes of impairment testing;

(f) require an entity to disclose in which reportable segments CGUs containing goodwill are included; and

(g) not pursue further any of the other suggestions analysed in this paper or included in the appendix to this paper.

Question for the IASB
1. Does the IASB agree with our recommendations in paragraph 79?

[9] As described in the IASB’s tentative decisions on disclosures about business combinations—see Agenda Paper 18B to the IASB’s September 2022 meeting.

Appendix—Suggestions not pursued

A1. Suggestions we thought should not be explored further for reasons explained in paragraphs 24–25 of Agenda Paper 18C to the IASB's May 2023 meeting:

(a) improve the requirements to disclose assumptions used in the impairment test:

(i) clarify the requirements in paragraph 134 of IAS 36 to disclose key assumptions are linked to the metrics used by management to monitor the subsequent performance of business combinations;

(ii) improve the requirements to disclose assumptions used in the periods leading up to the period the terminal value is extrapolated from;

(iii) require an entity to disclose the effects of reasonably possible changes in key assumptions regardless of whether it could cause an impairment loss to be recognised; and

(iv) require an entity to justify material changes in discount and growth rate assumptions used compared to the prior period;

(b) require an entity to disclose information about why no impairment loss was recognised and how close an entity was to recognising an impairment loss in 'close-call' situations;

(c) provide additional guidance on the consistency of assumptions used with external evidence or other assumptions used in the impairment test;

(d) provide additional guidance how to factor in less optimistic scenarios in cash flow forecasts;

(e) provide additional guidance how to appropriately reflect risks in the discount rate;

(f) provide additional guidance how to estimate terminal value;

(g) require an entity to reconcile the recoverable amount of the CGUs and the market capitalisation of the entity;

(h) review how the requirements in IAS 21 to translate goodwill balances interact with the level goodwill is allocated for impairment testing purposes;

(i) develop criteria for when reorganising the reporting structure for the purpose of impairment testing is permitted, for example it could be permitted only if there is a change in the cash flow structure;

(j) provide additional guidance on what ‘largely independent cash inflows’ means;

(k) require an entity to disclose the amount of headroom in material CGUs containing goodwill at the acquisition date and for a few years afterwards;

(l) require an entity to disclose how CGUs have been identified and whether shielding in a group of CGUs is likely to be high;

(m) remove the prohibition on reversal of impairment losses on goodwill; and

(n) provide additional guidance on what each CGU ‘that is expected to benefit from the synergies of the combination’ means.