

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of the EFRAG Board. The paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

EFRAG Research Project Goodwill Cover Note

Objective

- 1 The objective of this session is to ask the EFRAG Board their approval to issue a Short Discussion Paper on possible amendments to the impairment requirements for goodwill in IAS 36 *Impairment of Assets*.

History of the project

Scope of the project

- 2 The initial scope of the project included the following areas:
 - (a) Improvement and/or simplifications of the goodwill impairment test in IAS 36;
 - (b) Reintroduction of annual amortisation of goodwill and related guidance on:
 - (i) The useful life of goodwill; and
 - (ii) The appropriate pattern of amortisation; and
 - (c) Improvements in disclosure.
- 3 The project did not address the initial recognition of goodwill as an asset and its Initial measurement of goodwill (treatment of contingent consideration or separation of other intangibles from goodwill).
- 4 At the January 2017 joint EFRAG Board and EFRAG TEG meeting, it was decided that the short-term focus for the project would be to issue a publication with proposals to amend the impairment test with a view to:
 - (a) enhance the application and effectiveness of the impairment review, which should mitigate concerns that recognition of impairment losses may not be timely; and
 - (b) address some of the complexity and achieve a better balance between cost and benefits.

Past discussions of EFRAG TEG

- 5 EFRAG TEG discussed the following topics from May 2015 to October 2016:
 - (a) In relation to impairment requirements:
 - (i) objective of the impairment test;
 - (ii) frequency of testing and indicators of impairment;
 - (iii) identification of CGUs;
 - (iv) level of allocation/ reallocation of goodwill;

- (v) methods to determine the recoverable amount of CGUs; and
- (vi) inputs to value in use calculation;
- (b) In relation to annual amortisation:
 - (i) how to assess the amortisation period;
 - (ii) when to reassess the amortisation period; and
 - (iii) pattern of amortisation.
- 6 The Short Discussion Paper explains advantages and disadvantages of the proposals that EFRAG TEG deemed worth exposing to constituents. On some topics – such as how to determine the terminal growth rate – EFRAG TEG did not identify any viable improvement.

Interaction with the IASB Goodwill and impairment research project

- 7 At its May meeting, the IASB had an education session on possible improvements to impairment and disclosure requirements in IAS 36. In relation to possible improvements (aimed at either simplify the impairment model or improving its effectiveness), some of the topics are in common to the Short Discussion Paper, namely:
 - (a) relief from annual testing;
 - (b) a single method to determine recoverable amount.
- 8 The IASB did not take any decision at the meeting.

Agenda Papers

- 9 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 09-02 *Short Discussion Series Paper Goodwill Impairment Test: Ways to Improve It.*