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EFRAG Research project Goodwill – Impairment and Amortisation Next Steps

Objective

- 1 The objective of this paper is to present to EFRAG TEG the proposed next steps on the EFRAG Research project *Goodwill – Impairment and Amortisation* and to provide EFRAG TEG with an update on the IASB's latest discussions on its *Goodwill and Impairment* research project.

Background

Objective of the project

- 2 The objective of EFRAG's research project is to discuss improvements to subsequent accounting of goodwill.

Scope of the project

- 3 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.
- 4 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).

Past discussions of EFRAG TEG

- 5 Following the publication of EFRAG/ASBJ/OIC Research Team paper in 2014, it was decided to focus on the topics under 3(a) and 3(b) above. EFRAG TEG discussed papers on the following aspects from May 2015 to October 2016:
 - (a) How to improve and/or simplify the impairment requirements:
 - (i) frequency of testing and indicators of impairment;
 - (ii) objective of the impairment test;
 - (iii) level of allocation/ reallocation of goodwill;
 - (iv) methods to determine the recoverable amount of CGUs; and
 - (v) inputs to value in use calculation;

- (b) How to apply amortisation:
 - (i) how to assess the amortisation period;
 - (ii) when to reassess the amortisation period; and
 - (iii) pattern of amortisation.
 - (c) Alternative approaches for subsequent accounting of goodwill:
 - (i) the remeasurement approach;
 - (ii) the goodwill accretion approach; and
 - (iii) the DDRAI approach.
- 6 Based on the discussions, EFRAG TEG deemed that the following proposals were worth exposing to constituents:
- (a) a requirement to perform a quantitative impairment test only if a qualitative assessment shows that the goodwill is likely to be impaired;
 - (b) discussing the advantages and disadvantages to have only one method to assess the recoverable amount. One way to do this, but not the only one, would be to require entities to select the method that reflects the expected manner of recovery of the investment;
 - (c) allowing to include the effect of future restructurings in the VIU calculation, before the restructuring qualifies for recognition;
 - (d) allowing an option to use either a pre-tax or post-tax calculation of VIU; and
 - (e) the goodwill accretion approach.
- 7 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 improve the impairment test.

Next steps

- 8 If EFRAG TEG agrees to recommend the publication of the Short Discussion Series Paper, the EFRAG Secretariat will incorporate EFRAG TEG's comments and suggestions in the paper and bring it to the EFRAG Board in one of the next sessions.
- 9 The EFRAG Secretariat will include the following in a more advanced version of the Short Discussion Series Paper:
- (a) questions to constituents; and
 - (b) the executive summary.
- 10 The EFRAG Secretariat proposes a comment period of 120 days.

Questions for EFRAG TEG

- 11 Does EFRAG TEG have comments and suggestions to improve the proposals in the Short Discussions Series paper?
- 12 Does EFRAG TEG agree to recommend the Short Discussion Series paper for publication to the EFRAG Board, subject to comments and improvements identified?
- 13 Does EFRAG TEG agree with the proposed comment period?

Appendix 1: Update on latest IASB discussions and next steps on its *Goodwill and Impairment* research project

Introduction

- 1 This appendix presents a brief update on latest IASB discussions and next steps on its *Goodwill and Impairment* research project.

Latest IASB discussions

- 2 At its March 2017 meeting, the IASB discussed the status of its *Goodwill and Impairment* research project. No decisions were made.
- 3 During 2017, the IASB staff will present proposals to the IASB on:
 - (a) simplifying the impairment testing model in IAS 36, where one or more of the following approaches will be considered:
 - (i) a single method to determine the recoverable amount;
 - (ii) relief from annual testing;
 - (iii) changes to the value in use methodology; and
 - (iv) additional guidance to assist entities in applying the IAS 36 requirements;
 - (b) improving the effectiveness of the impairment testing model, which will also focus on additional disclosures; and
 - (c) identifying intangible assets in a business combination separately from goodwill in a business combination, where the following approaches could be considered:
 - (i) no change to requirements, but improve application guidance;
 - (ii) subsume some intangible assets in goodwill;
 - (iii) subsume intangible assets that cannot be measured reliably; and
 - (iv) allow further grouping of intangible assets.

Next steps

- 4 The IASB staff will discuss points (a) and (b) above at the May 2017 IASB meeting and at the June 2017 Joint meeting of Global Preparers Forum and Capital Markets Advisory Committee. Point (c) will be discussed at the July 2017 IASB meeting and at the July/September 2017 Accounting Standards Advisory Forum meeting.
- 5 At its November/December 2017 meeting, the IASB staff plans to update the IASB on the feedback from the consultative groups and seek tentative decisions from the IASB and decide the form of public consultation. The IASB staff plans to undertake field testing of any new approaches that the IASB decides to take for improving the effectiveness of impairment testing.