IASB Research project Goodwill and Impairment

Project Update

Objective

1 The objective is to provide an update on the IASB Research project Goodwill and Impairment (the project).

Project objectives

2 At its meeting in July 2018, the IASB tentatively decided to clarify the project objectives as follows:

(a) Objective A - Identifying disclosures to enable investors to assess management's rationale for the business combination, and whether the post-acquisition performance of the business combination meets expectations set at the acquisition date;

(b) Objective B - Simplifying the accounting for goodwill by exploring whether to permit an indicator-only approach to determine when an impairment test under IAS 36 *Impairment of Assets* is required and/or reintroduce amortisation of goodwill;

(c) Objective C - Improving the calculation of value in use by exploring whether to remove the prohibition on the inclusion in cash flow projections of future enhancements to the asset and permit the use of post-tax inputs in the calculation of value in use.

3 At its meeting in October 2018, the IASB discussed the next steps and eventual publication of a discussion paper which the IASB staff expected to be issued by H1 2020. Several IASB members cautioned against delaying publication to H1 2020 as this might create 'wait fatigue' for stakeholders and asked the IASB staff to bring forward this date.

Objective A – targeted improvements to existing disclosures

4 In October 2018, the IASB discussed ways to improve the disclosure requirements and tentatively decided that the staff should not perform a complete review of all the disclosure requirements in IFRS 3 *Business Combinations*.

5 The objective of identifying better disclosures is to enable investors to assess whether a business combination was a good investment decision and whether, after the acquisition, the acquired business is performing as was expected at the time of the acquisition. Users have informed the IASB that the current requirements in IFRS 3 are not sufficient to make this assessment.

6 A common concern reported by users is that the information lacks quantitative data to enable a more concise evaluation of the acquisition. Improvements to the existing disclosures should provide an insight into the strategic reasons for the business

combination and the key drivers supporting the acquisition and the consideration paid.

7 The EFRAG Secretariat observes that the EFRAG/OIC/ASBJ Research Group Discussion Paper published in July 2014 suggested a number of disclosures with a similar objective to that being discussed by the IASB. Respondents to the Discussion paper provided mixed views on the proposed disclosures, with some agreeing that there was room for improvement, and others arguing that the existing disclosures were already considered extensive.

IASB staff disclosure proposals

8 In summary, the IASB staff are proposing the following additional disclosure requirements for business combinations:

- (a) At acquisition date:
  - (i) Qualitative description of the strategic rationale for the business combination, including the key objectives of the business combination;
  - (ii) The amount or the range of amounts of those individual factors that support the amount of goodwill – for example quantitative (numerical) assessment of the expected synergies of the business combination together with expected costs to achieve those synergies;
  - (iii) Separate disclosure of liabilities for which cash flows were or will be classified as financing activities assumed at the date of acquisition (ie debt acquired in a transaction);
- (b) Post-acquisition information:
  - (i) Factors management will use to assess the extent to which the key objectives of the business combination at acquisition date have been achieved in future periods; and
  - (ii) Measurement of the factors and how they have been used in the monitoring/assessment process.

Feedback from the CMAC and GDF members

9 The Capital Markets Advisory Committee (CMAC) and the Global Preparers Forum (GPF) discussed the IASB staff disclosure proposals in November 2018.

10 CMAC members highlighted that the fundamental problem is the lack of information about the reasons for undertaking the acquisition and assessing whether it has been successful, especially once it was integrated within the group.

11 Quantitative information about the objective of the acquisition and its subsequent performance and long-term value generation was necessary to assess stewardship and the allocation of capital. Members generally agreed that post-acquisition performance information could be based on how management assess the achievement of the key objectives for internal reporting performances, as it will be hard to develop a 'fit-for-all' set of requirements.

12 GPF members did not support the IASB staff proposals for the following reasons:

- (a) It would not be feasible to provide quantitative information relating to goodwill because the acquisition price is influenced by a number of factors and the success of an acquisition is not generally monitored using quantitative factors;
- (b) It was difficult to quantify the expected synergies especially for strategic acquisitions and preparers cannot pinpoint where the synergies are coming from and did not always measure synergies in terms of costs and revenues;
- (c) Some of the information being requested is commercially sensitive;

(d) Where integration of the acquired business occurs, it is difficult to track the subsequent performance of the acquisition on a stand-alone basis; monitoring focused on the updated target for the combined business rather than on the acquired business and on accounting numbers;

(e) As the business strategy may change over time, continuing to hold management accountable for its acquisition date strategy plan may not be meaningful.

EFRAG TEG-CFSS and ASAF discussions

13 At its November 2018 meeting, EFRAG TEG-CFSS acknowledged that the request from users for improved disclosures was a valid one. However, there was a need to examine how this could be achieved in order not to overstep what preparers would be able to provide with a reasonable cost/benefit balance.

14 The Advisory Standards Advisory Forum (ASAF) discussed improved disclosures at its meeting in December 2018. Members highlighted that it was important to link the disclosure objectives with the objectives preparers set when undertaking a business combination, how they monitor the acquisition and assess its success.

15 Some ASAF members suggested that users would seek information to make their own assessment as to whether the carrying of goodwill in the financial statements was appropriate, when assessing governance and stewardship by management. Some ASAF members questioned the reluctance of GPF members in paragraph 12 to provide some of the information, as this pointed to a governance issue.

Objective B – Amortisation of goodwill

16 Earlier this year, the IASB decided not to pursue the updated headroom approach for cost-benefit reasons. This meant that the issue with the goodwill number would remain when it did not reflect a failed acquisition or did not reflect impairment because it was shielded by internally generated goodwill.

17 In its preliminary analysis, the IASB staff noted that if the objective was to ‘reduce the carrying amount of goodwill to zero’ amortisation could be a pragmatic and cost-effective solution to achieve this objective. However, determining a meaningful useful life or pattern of consumption could be difficult. There is also a question of whether indefinite-lived intangible assets should also be amortised.

18 The EFRAG Secretariat observes that the idea to reintroduce goodwill amortisation is not new. In its 2014 Discussion Paper, the EFRAG/OIC/ASBJ Research Group made this suggestion, with most respondents agreeing that the impairment-only model did not provide the most appropriate solution for subsequent measurement of goodwill. These respondents agreed that amortisation of goodwill should be reintroduced if it could reasonably reflect the consumption of the economic resources acquired in the business combination in the relevant periods. This seems however difficult to achieve, especially in view of the comments made by the GPF in paragraph 12 above.

19 A minority of respondents, mostly users, were supportive of the current impairment-only approach on the basis that the amortisation model did not provide relevant information to users of financial statements.

EFRAG TEG-CFSS and ASAF discussions

20 EFRAG TEG-CFSS discussed amortisation of goodwill at its meeting in November 2018. There was broad support for the IASB to consult on the reintroduction of amortisation of goodwill and explore ways to determine an amortisation period. Members discussed some possible amortisation approaches, but generally acknowledged that the amortisation period would be a significant challenge.

21 At its meeting in December 2018, several (but not all) ASAF members supported reconsideration of an amortisation approach. Some members noted that previous supporters of an impairment-only model were now in favour of amortisation. Overall, it could serve as a pragmatic solution to the issue even though it lacked a strong conceptual basis. The impairment test would still be required but on different terms. There were different views on how to determine the amortisation period/ useful life or an appropriate consumption basis. Some members questioned the usefulness of amortisation information for users. However, they acknowledged that for preparers it would bring relief.

Objective C - Improving the calculation of value in use

22 In January 2018, the IASB discussed whether it could simplify the value in use calculation without making the impairment test in IAS 36 less robust. The IASB tentatively decided to consider:

(a) removing the requirement for an entity to exclude from the value of use calculation cash flows resulting from a future restructuring or a future enhancement; and

(b) removing the explicit requirement to use pre-tax inputs to calculate value in use and to disclose the pre-tax discount rates used.

23 EFRAG TEG-CFSS members generally supported the above IASB decisions when they discussed the proposals at the April 2018 meeting.

Questions for EFRAG Board members

24 Does the EFRAG Board have any comments on this update?