

Accounting Standards Advisory Forum  
July 2018  
ASAF Agenda Paper 8

# Goodwill and Impairment

THIS PAPER IS CLEARER IF PRINTED IN COLOUR

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (the Board) or IFRS Foundation.

## **To seek views about:**

- disclosure approaches that the Board tentatively decided to consider and,
- additional possible approaches the staff are considering to improve disclosure requirements about business combinations, goodwill and impairment; and

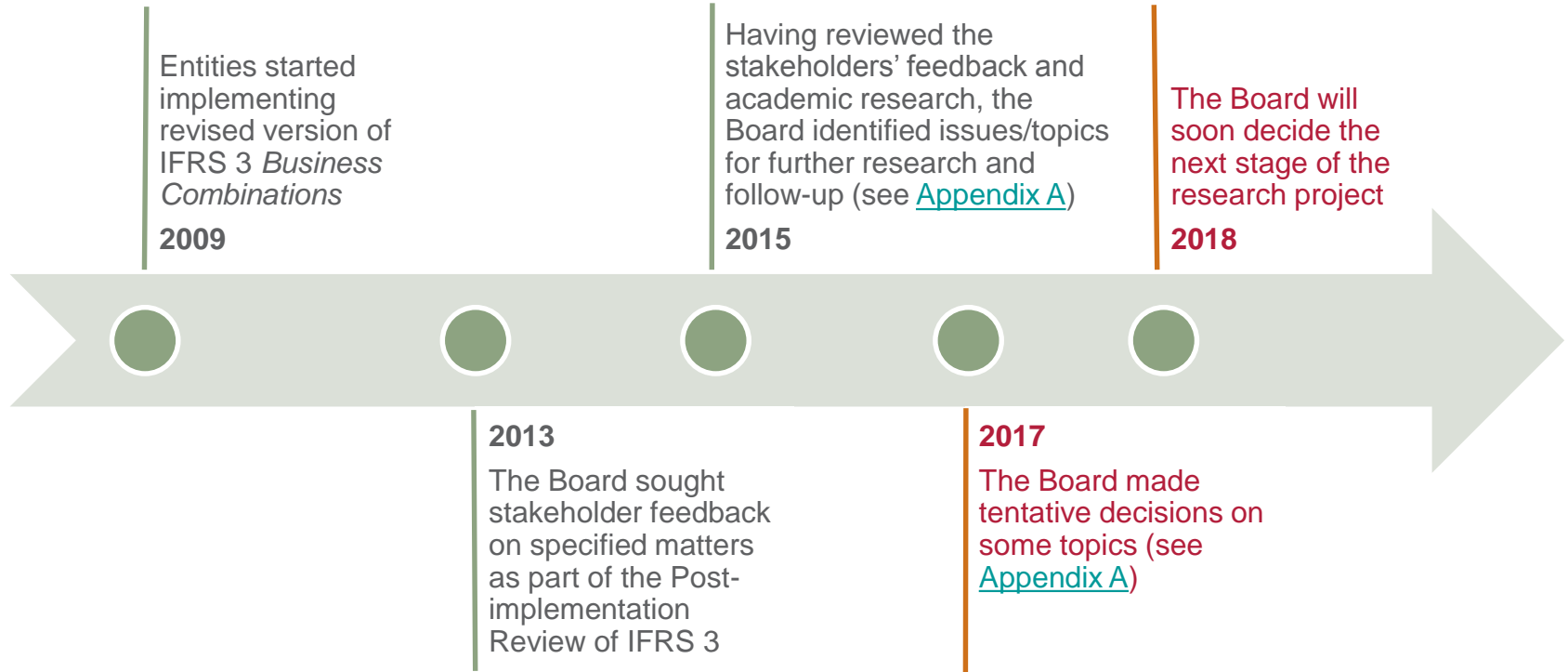
## **To ask suggestions about:**

- other possible disclosures that can provide better and timely information about business combinations, goodwill and impairment for users without imposing costs on preparers that exceed the benefits.

1. Do you have any comments or feedback on disclosures (page [8](#)) that the Board tentatively decided to consider?
2. Do you have any comments or feedback on additional possible disclosures (page [12](#)) the staff are considering further?
3. Do you have any new idea or suggestions about other possible disclosures that can provide better and timely information about business combinations, goodwill and impairment for users without imposing costs on preparers that exceed the benefits?

# Brief background

# Brief background



# Improving disclosures about business combinations, goodwill and impairment

## IFRS 3 requirements

Disclose the primary reasons for the business combination

Disclose a qualitative description of the factors that make up the goodwill

## IAS 36 requirements

Goodwill is allocated to CGU(s) for impairment testing purposes

This is not necessarily at the level of the acquired entity as a whole

## Investors' concerns

- Insufficient information about: (a) the key drivers that justified the valuation of an acquisition (and hence the amount of goodwill); and (b) whether the acquisition has been successful (subsequent performance of the acquired business)

## Ongoing research

- Additional disclosures that can provide better and timely information about business combinations, goodwill and impairment for users without imposing costs on preparers that exceed the benefits.

# Disclosures that the Board tentatively decided to consider (1/4)

In its December 2017 meeting, the Board tentatively decided to consider introducing requirements for an entity to disclose:

- the reasons for paying a premium that exceeds the value of the net identifiable assets acquired in a business combination together with key targets or assumptions supporting the purchase consideration and, subsequently each year, a comparison of actual performance with those targets or assumptions
- each year, a breakdown of carrying amount of goodwill by past business combination, explaining why the carrying amount of goodwill is recoverable
- each year, information about the headroom in CGU(s) to which goodwill is allocated for impairment testing



# Disclosures that the Board tentatively decided to consider (2/4)

Reasons for payment of premium, key targets supporting the purchase consideration and comparison of actual performance with targets

Key targets might include increased revenue, increased operating margins, identified cost savings arising from business combinations.

Information about the disclosures is usually readily available because management is often subject to a legal or regulatory requirement from shareholders to seek approval with documents including this information.

Changes in business after a business combination could make it difficult for management to track the information about subsequent performance.

Users generally supported the disclosures. However, preparers expressed concerns that for those disclosures to be meaningful an entity would have to disclose commercially sensitive information; consequently, if the Board requires the disclosures, entities are likely to disclose only boilerplate information.

# Disclosures that the Board tentatively decided to consider (3/4)

Breakdown of carrying amount of goodwill by past business combination and explanation justifying its recoverability

Disaggregation of carrying amount of goodwill by each past combination would highlight goodwill acquired in combinations that investors consider as unsuccessful

Disaggregation of carrying amount of goodwill by each past combination would also help users make their own assessment of whether goodwill acquired in a past combination is recoverable

For old combinations, gathering the evidence on recoverability of goodwill would be costly because it may become very difficult to identify or isolate the benefits arising from those combinations.

Users generally supported disclosing this information. However, preparers questioned the usefulness of the information, especially long after a business combination. They also think the disclosures may end up being boilerplate.

# Disclosures that the Board tentatively decided to consider (4/4)

---

Disclosing the headroom each year

Current IAS 36 requires disclosure of the headroom only when a reasonably possible change in a key assumption would cause the unit's carrying amount to exceed its recoverable amount

---

Disclosing the headroom each year would provide investors with useful information for evaluating the verifiability or measurement uncertainty of the impairment test.

---

Some preparers expressed concerns that investors might be able to perform a reverse calculation to derive an entity's budgets using the headroom information.

---

Users generally supported this information because the trend in the headroom would provide investors with useful information for evaluating the verifiability or measurement uncertainty of the impairment test.

---

## Additional possible disclosures the staff are considering further (1/5)

Based on recent feedback from users, the staff are further considering following additional possible disclosures:

- the amount of revenue and operating profit of the acquired business during the financial year in which the combination occurred and the first two full financial years post business combination
- information about debt assumed in each business combination
- effective tax rate on the underlying operating profit of the acquired business

# Additional possible disclosures the staff are considering further (2/5)

the amount of revenue and operating profit of the acquired business for the first few years after business combination

Current requirement	Benefits	Costs
<ul style="list-style-type: none"><li>• Current IFRS 3 already requires following similar disclosure:<ul style="list-style-type: none"><li>✓ the revenue and profit or loss of the acquiree for the acquisition period.</li><li>✓ the revenue and profit or loss of the combined entity for the acquisition period.</li></ul></li></ul>	<ul style="list-style-type: none"><li>• It would help users to assess the economics of business combination:<ul style="list-style-type: none"><li>✓ investors can decide whether an entity effectively allocated its capital through the transaction.</li><li>✓ investors can hold management to account.</li></ul></li></ul>	<ul style="list-style-type: none"><li>• It is unlikely to increase the costs to preparers because most of the entities undertaking business combinations should be tracking this information internally.</li><li>• It would require further discussion and work because 'operating profit' is not defined in IFRS.</li></ul>

# Additional possible disclosures the staff are considering further (3/5)

## Information about debt assumed in each business combination

Current requirement	Benefits	Costs
<ul style="list-style-type: none"><li>• IAS 7 amendment in 2016 requires the total amount of debt assumed but not the amount of debt assumed for individual combination.</li></ul>	<ul style="list-style-type: none"><li>• It would help investors to assess the total capital employed in a business combination.</li></ul>	<ul style="list-style-type: none"><li>• It would not increase costs to preparers because preparers already have this information.</li></ul>

# Additional possible disclosures the staff are considering further (4/5)

Effective tax rate on the underlying operating profit of the acquired business

Current requirement	Benefits	Costs
<ul style="list-style-type: none"><li>No requirement</li></ul>	<ul style="list-style-type: none"><li>It would help investors to assess potential performance of the combination more precisely.</li></ul>	<ul style="list-style-type: none"><li>It would add additional costs to preparers because calculating the effective tax rate for each combination could be complex and additional work would be required.</li></ul>

# Additional possible disclosures the staff are considering further (5/5)

---

## Other possible additional disclosures from recent feedback:

- Disclosure of indicators that triggered the quantitative impairment test
- Improvements to the disclosure requirements in IFRS 8 *Operating Segment*
- Disclosure of total net assets, less goodwill



1. Do you have any comments or feedback on disclosures (page [8](#)) that the Board tentatively decided to consider?
2. Do you have any comments or feedback on additional possible disclosures (page [12](#)) the staff are considering further?
3. Do you have any new idea or suggestions about other possible disclosures that can provide better and timely information about business combinations, goodwill and impairment for users without imposing costs on preparers that exceed the benefits?

# Appendices

# Summary of the Board's tentative decisions

Appendix A

# The Board's tentative decisions (1/2)

Feedback received	Topic for research	Current status of Board's research
There are delays in recognition of impairments of goodwill.	<b>Topic 1</b> —Can the impairment testing model for goodwill be improved?	<a href="#">The Board tentatively decided</a> to consider using the unrecognised headroom as an additional input in the impairment testing of goodwill. Headroom is the excess of the recoverable amount of a cash-generating unit (or group of units) over the carrying amount of the unit(s). <sup>1</sup>
Impairment testing of goodwill is a costly process.	<b>Topic 2</b> —Can impairment testing be simplified without making it less robust?	<a href="#">The Board tentatively decided</a> to consider simplifying the value in use calculation. <sup>2</sup>
Financial statements do not include information to assess performance of an acquired business.	<b>Topic 3</b> —Can the quality of information provided to the users of financial statements be improved without imposing costs for preparers that outweigh the benefits?	<a href="#">The Board tentatively decided</a> to consider requiring entities to disclose: (a) the unrecognised headroom; (b) breakdown of goodwill by past acquisition; and (c) information about the key drivers that justified the valuation of new acquisitions. <sup>1</sup>

1. Members may refer to Agenda Papers 18C and 18F for the [December 2017](#) Board meeting for more information.

2. Members may refer to Agenda Papers 18–18B for the [January 2018](#) Board meeting for more information.

## The Board's tentative decisions (2/2)

Issue identified	Topic for research	Current status of Board's research
Some stakeholders have consistently requested the Board to consider reintroducing amortization of goodwill.	<b>Topic 4</b> —Are there any new conceptual arguments or new information in support of amortising goodwill?	<a href="#">The Board tentatively decided</a> not to consider reintroducing amortisation of goodwill. <sup>3</sup>
Valuing some intangible assets on an acquisition is a costly process and may not provide useful information to investors.	<b>Topic 5</b> —Should an entity be allowed to include some acquired identifiable intangible assets within goodwill arising on an acquisition?	<a href="#">The Board tentatively decided</a> not to consider allowing some intangible assets to be included within goodwill. <sup>4</sup>

The Board aims to decide the next stage of the research project (ie. the form and content of the consultation document) in its July 2018 meeting.

3. Members may refer to Agenda Paper 18B for the [December 2017](#) Board meeting for more information.

4. Members may refer to Agenda Paper 18A for the [April 2018](#) Board meeting for more information.

# Past discussions with ASAF

Appendix B

Month	Question asked	Summary of feedback
December 2015	ASAF members were asked for feedback on the Board's initial discussions and for any advice on the way forward with the project.	<ul style="list-style-type: none"><li>• Mixed views with some members supporting impairment-only approach to goodwill whereas others supported amortisation and impairment of goodwill.</li><li>• Consider what information users want; focus on the benefits for users of the current information versus the costs to preparers of applying the requirements.</li><li>• Focus primarily on improving the impairment test, because such an improvement would be required regardless of the approach for accounting for goodwill.</li><li>• Some ASAF members thought it necessary to retain a robust impairment test if the impairment-only approach is maintained.</li></ul>
		Click the links for <a href="#">agenda papers 5–5F</a> , <a href="#">full meeting summary</a> and <a href="#">recording</a> .

Month	Question asked	Summary of feedback
July 2016	ASAF members were asked for views on the quantitative study presented by staff of EFRAG and ASBJ staff on trends in goodwill, intangible assets and impairment charges over ten years.	<p>ASAF members:</p> <ul style="list-style-type: none"><li>• suggested the objective and research question need to be specified clearly.</li><li>• questioned whether the study provides sufficient information about internally generated intangible assets.</li><li>• emphasised that it is difficult to analyse goodwill on an average basis because goodwill is concentrated among a small number of companies.</li><li>• suggested reviewing goodwill on a case by case basis and performing further analysis of goodwill by industry.</li></ul>
		Click the links for <a href="#">agenda papers 6–6app</a> , <a href="#">full meeting notes</a> and <a href="#">recording</a> .



Month	Question asked	Summary of feedback
July 2017	ASAF members were asked for feedback on the IASB staff's and ASBJ's current thoughts on simplifying and improving the effectiveness of the impairment testing model for goodwill.	<ul style="list-style-type: none"><li>• ASAF members generally did not support the ASBJ's idea of allowing a choice between amortisation and impairment model and impairment-only model mainly because of deteriorating comparability and other concerns.</li><li>• Mixed views on single method approach and indicator-only approach to simplify and improve goodwill impairment testing.</li></ul>
		Click the links for <a href="#">agenda papers 3–3B</a> , <a href="#">full meeting notes</a> and <a href="#">recording</a> .

Month	Question asked	Summary of feedback
September 2017	ASAF members were asked for feedback on possible approaches developed by the IASB staff (pre-acquisition headroom) and by the EFRAG staff (goodwill accretion) for improving the effectiveness of the impairment testing model for goodwill.	<ul style="list-style-type: none"><li>• ASAF members generally expressed concerns that both goodwill accretion approach and the pre-acquisition headroom approach would add further complexity.</li><li>• Some members thought that the goodwill accretion approach would be difficult to understand or explain.</li><li>• In relation to using a single method as the sole basis for determining recoverable amount, there was no clear support for using either fair value less costs of disposal or value in use as the sole basis.</li></ul>
		Click the links for <a href="#">agenda papers 5–5B</a> , <a href="#">full meeting notes</a> and <a href="#">recording</a> .

Month	Question asked	Summary of feedback
April 2018	<p>ASAF members were asked for feedback on the IASB staff's proposals on</p> <ul style="list-style-type: none"><li>• [updated] headroom approach; and</li><li>• identifiable intangible assets acquired in a business combination.</li></ul>	<ul style="list-style-type: none"><li>• No ASAF members supported the [updated] headroom approach, mainly because of the complexity and additional costs.</li><li>• Many ASAF members preferred focusing on improving disclosures about business combinations rather than focusing on using headroom approach.</li><li>• ASAF members expressed mixed views about separate recognition of intangible assets.</li></ul>
		Click the links for <a href="#">agenda papers 5</a> and <a href="#">recording</a> .

[www.ifrs.org](http://www.ifrs.org)



@IFRSFoundation



IFRS Foundation, IASB



IFRS Foundation



IFRS Foundation