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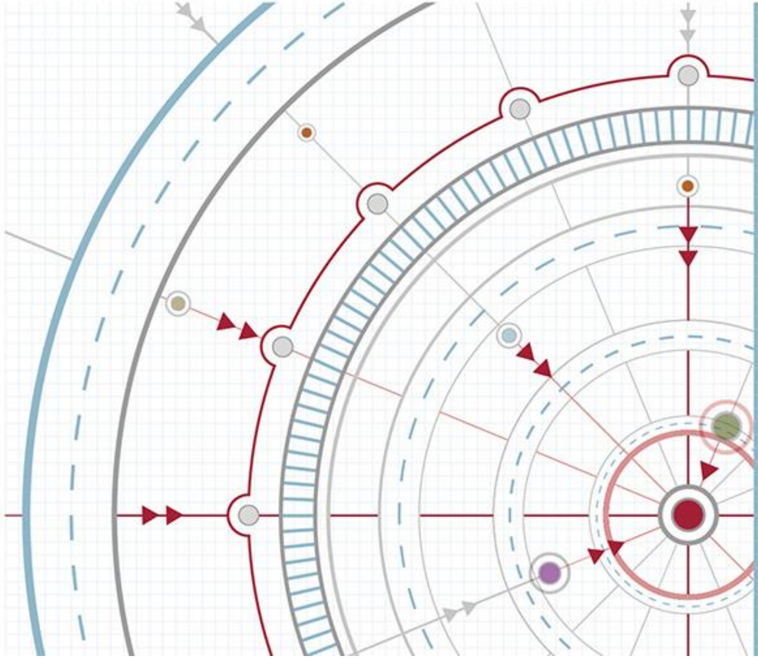

Accounting Standards Advisory Forum

October 2018

ASAF Agenda Paper 6B

Project update on Goodwill and Impairment

THIS PAPER IS CLEARER IF PRINTED IN COLOUR

Brief background

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2009

Entities started implementing revised version of IFRS 3 *Business Combinations*

2013

The Board sought stakeholder feedback on specified matters as part of the Post-implementation Review of IFRS 3

2015

Having reviewed the stakeholders' feedback and academic research, the Board identified issues/topics for further research and follow-up

July 2018

Based on key findings from research project, the Board decided to pursue three objectives for follow-up work for the project

2nd half of 2018

The Board will continue its discussions on how to achieve the objectives the Board is pursuing for the project and work towards issuing a Discussion Paper

Key findings from the Board’s research project so far

Key findings: Accounting for goodwill

Whether goodwill is an asset	Whether goodwill should be amortised
• Goodwill is mainly composed of 'core goodwill': the going concern element of the acquired business and the expected synergies or benefits from acquisition. • There have been no developments, including the revisions to the *Conceptual Framework*, that question whether goodwill continues to meet the definition of an asset. • Goodwill is measured as a residual, but this does not prevent goodwill from being an asset. • The Board decided not to pursue immediate write-off goodwill on initial recognition because it would undermine the conclusion that goodwill is an asset.	• No significant new evidence or strong new arguments to support an amortisation model. • Amortisation of goodwill is a pragmatic solution that might help in resolving concerns about the amount of goodwill carried on the balance sheet. • It would reduce the costs to preparers in accounting for goodwill. • It would not provide any useful information for users. It could also reduce the information usefulness (even if it is limited) provided by current impairment test.

Key findings: Identifiable intangible assets

✓ **Investors have mixed views about the information usefulness provided by recognising all identifiable intangible assets in a business combination:**

- Some supported the current requirement of IFRS 3 to recognise all identifiable intangibles whereas some questioned information usefulness about recognising some intangibles (brands and customer relations).
- No compelling evidence that including some intangible assets in goodwill would save costs, arguably it could increase the pressure on the impairment test for goodwill.
- Aligning internally generated and acquired intangible asset accounting would be a fundamental change to intangible asset accounting.
- The Board tentatively decided not to pursue this objective.

Key findings: Impairment testing of goodwill

✓ **Current impairment testing model is costly and complex, but does not always provide information about the performance of the acquired business (Costly but limited benefit).**

✓ **Ineffectiveness of the impairment testing model for goodwill**

- Acquired goodwill is currently tested for impairment as part of a cash-generating unit(s).
- Acquired goodwill could be shielded from impairment by unrecognised headroom of the existing business it is combined with in these unit(s).
- Staff investigated the 'headroom approach' as a means to improving the effectiveness of the impairment test, however the feedback indicated this would add to the cost and complexity of the impairment test, so increasing the first problem (may not be feasible)

Key findings: Improving disclosures

✓ **Investors view following information as useful information for business combination, goodwill and impairment:**

Business combination	Goodwill and impairment
• Information to help users assess whether an acquisition is a good investment decision. • Information to help users assess whether the acquired business has been performing after acquisition as expected at the acquisition date.	• Information to help users understand the reasons for any premium paid for a business. • The impairment test provides limited information regarding the performance of the acquired business post-acquisition.

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Objectives for follow-up work for the research project

(July 2018 Board Meeting)

Objectives for follow-up work for the project

✓ **The rationale for the Boards' tentative decision to pursue better disclosures and simplifying the impairment test and the accounting for goodwill for the research project:**

Findings

How to address

Need for information on performance of acquisition

Limited benefit provided by costly impairment test not always reflecting the failure of the acquisition

Yes

No

Yes

Providing better disclosures (Objective A)

Improving the effectiveness of the impairment test

Simplifying the test and accounting for goodwill (Objective B & C)

Objectives for follow-up work for the project

✓ **At the July 2018 Board meeting, the Board tentatively decided to pursue the following three objectives for addressing the interrelated problems identified in the research project:**

Objective A	Identifying disclosures to enable investors to assess: • management's rationale for the business combination • if the post-acquisition performance of the business combination meets expectations set at the acquisition date
Objective B	Simplifying the accounting for goodwill by: • permitting an indicator-only approach as to whether an impairment test is required • exploring whether to reintroduce amortisation of goodwill
Objective C	Improving the calculation of value in use by permitting: • cash flow projections that may include future enhancements to the asset • the use of post-tax inputs in the calculation of value in use

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