

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR 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 FRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Goodwill and Impairment – Subsequent Accounting for Goodwill Issues Paper

Objective

- 1 To inform EFRAG FR TEG about the IASB decision on subsequent accounting for goodwill.

The IASB decision

- 2 At its meeting in November 2022 the IASB concluded the long series of discussions of whether to retain the impairment only model or consider exploring the amortisation of goodwill, by deciding to maintain its preliminary view **to retain the impairment-only model** for the subsequent accounting for goodwill.
- 3 All 11 IASB members agreed with this decision.

The IASB considerations

- 4 To arrive at this conclusion the IASB analysed the arguments for reintroduction of amortisation and for maintaining the impairment-only model, including practical and academic evidence. [Agenda Paper 18B](#) (the same paper was provided in October IASB meeting), lists these arguments in more detail.
- 5 The IASB acknowledged the continuously strongly-held and divergent views about the appropriate model for the subsequent accounting for goodwill which are linked to the conceptual question of what the nature of goodwill is and whether goodwill is a wasting or a non-wasting asset.
- 6 In its analysis the IASB considered whether there is a compelling evidence that the reintroduction of amortisation of goodwill would:
 - (a) improve information provided to users about the business combinations (see paragraph 9 to 30 of this paper);
 - (b) reduce costs for stakeholders (see paragraph 31 to 41 of this paper).
- 7 The IASB considered that it did not find compelling evidence that one of these views is more appropriate than the other and, hence, concluded that there is also no compelling evidence that reintroducing amortisation of goodwill would significantly improve the information for users.
- 8 The IASB noted that feedback on whether an amortisation-based model would significantly reduce costs for entities was also inconclusive and referred to the doubts expressed by FASB in this respect. The importance of convergence with the FASB on this topic in order to reduce costs was also highlighted. The transition will

also be costly. Hence, the IASB concluded that there was no compelling evidence that reintroducing amortisation of goodwill would significantly reduce costs for entities.

Improving information

- 9 In determining whether amortisation would significantly improve the information users receive about business combinations the IASB considered:
- (a) nature of goodwill;
 - (b) other considerations;
 - (c) the IASB's tentative decisions on improving disclosure requirements; and
 - (d) an option to amortise goodwill.

Nature of goodwill

- 10 The IASB acknowledged diverged and strongly held views of the stakeholders including users on this topic.
- 11 Some respondents said amortisation could provide useful information about the period over which management expects to realise the benefits associated with goodwill and, because amortisation allocates the cost in the income statement to the period of that benefit, the income statement would be more meaningful. However, some said amortisation would not provide useful information and the impairment-only model provides better information.
- 12 The feedback depended on the respondents views on whether goodwill is a wasting asset or has an indefinite useful life.
- 13 For those who considered goodwill to be a wasting asset the value of goodwill diminishes over time due to competition, technological factors, the realisation of the benefits of synergies as businesses are combined, or an acquiree's skilled workforce leaving or retiring. Therefore, amortisation, for these stakeholders would reflect this steady decline in the value of goodwill and its consumption, thereby reflecting its wasting nature.
- 14 For those who considered that goodwill has an indefinite useful life, its value is expected to be sustained over an indefinite period rather than decline over a defined period. Components of goodwill such as the assembled workforce (including the knowledge and processes embedded in that workforce), cost synergies that are expected to be recurring, going concern value and business reputation, are all examples of components of goodwill that are considered by these stakeholders to have an indefinite useful life. Therefore, impairment model better reflects the fact that goodwill does not lose its value like other assets but reduces in value due to events that do not usually occur consistently over time.
- 15 The IASB also notes that the arguments that the goodwill balances are 'too high' does not mean that the impairment test is not working but simply means that an amortisation-based model would be the more appropriate model for stakeholders with this view.
- 16 Likewise, stakeholders that consider goodwill to have an indefinite useful life say an amortisation-based model creates a disconnect with the underlying economics of a business combination as such a model cannot reflect the indefinite nature of goodwill.

Other considerations

- 17 The IASB also considered:
- (a) evidence of the impairment test not working as expected; and

- (b) whether entities can reliably estimate the useful life of goodwill.

The impairment test not working as intended

- 18 One of the arguments that the impairment test is not working as intended was the increasing goodwill balances. The IASB does not consider this evidence as compelling to prove that the impairment model is not working.
- 19 The IASB considers that there could be a misunderstanding of the objective of the impairment test which is not to decrease goodwill balances and to reflect its consumption but at best to ensure that the carrying amount of goodwill is recoverable from future cash flows expected to be generated by both acquired goodwill and goodwill generated after the acquisition.
- 20 The IASB continues to hold the view that management over-optimism or testing goodwill for impairment at a too high level is an application issue which should be better addressed by auditors and regulators.

Can goodwill useful life be estimated reliably?

- 21 Mixed feedback was also received on whether it was possible to reliably estimate the useful life of goodwill.
- 22 In the IASB view, the arguments provided were inconclusive as in some cases the acquired business had a finite nature and it was relatively straightforward to estimate the useful life while in other cases it was more subjective.
- 23 In the IASB view, the uncertainty of the reliability of the estimates of the useful life of goodwill and the pattern in which it diminishes questions whether reintroducing amortisation of goodwill would significantly improve the information provided to users.
- 24 Both models for the subsequent accounting for goodwill have limitations. No impairment test has been identified that can test goodwill directly and for amortisation it is difficult to estimate the useful life of goodwill and the pattern in which it diminishes. The evidence from stakeholders simply highlights these limitations.

Suggested disclosures are a better way to improve information

- 25 The IASB acknowledged that neither impairment, nor amortisation model can meet users needs for information about subsequent performance of business acquisition.
- 26 Therefore, the package of disclosures the IASB discussed and made tentative decisions about in its [September meeting](#) will meet these needs directly and would be compatible with either model for the subsequent accounting for goodwill.

Would an option to amortise goodwill improve information?

- 27 Taking into account the diverging views on goodwill, the IASB considered whether providing an option to amortise goodwill or to apply impairment only approach could significantly improve the information.
- 28 The two possibilities were considered:
- (a) to apply accounting policy choice; or
 - (b) to require entities to determine whether goodwill arising in a business combination is predominantly a wasting asset or an asset with an indefinite useful life and apply an amortisation-based model or an impairment-only model accordingly (similar to the approach for other intangible assets in IAS 38 *Intangible Assets*).
- 29 The IASB noted that such option was already considered when amending IAS 36 in 2004. It was concluded that it would not provide useful information as it would hinder

comparability and reliability¹. In July 2017, the ASAF members did not support such approach² neither. In the IASB view, no compelling evidence to introduce an option was provided.

Conclusion

- 30 Based on the above, the IASB concluded that there is not a compelling case to explore reintroducing amortisation of goodwill, either on its own or as an option, to improve the information provided to users about business combinations.

Reducing costs

- 31 The IASB considered whether practical reasons, such as reduction in costs and complexity, could justify the reintroduction of goodwill amortisation, because:
- (a) amortisation could take pressure off the impairment test and, at the end of the useful life of goodwill, an impairment test would no longer be required;
 - (b) reintroducing amortisation could allow further simplifications to the impairment test.
- 32 The IASB noted that a less costly amortisation-based model is likely to contain a default amortisation period, no reassessment of the amortisation period, a straight-line amortisation pattern and an indicator-based impairment test. Such a model is unlikely to provide useful information even to those users who prefer an amortisation-based model.
- 33 The IASB also referred to the recent FASB decision to deprioritise this project and the expectation that capital market participants may incur meaningful costs to understand the effect of such a significant accounting change. The IASB considered it as an evidence of doubts that amortisation model could result in significant cost-savings.
- 34 The IASB also considered the costs of transition and convergence with US GAAP.

Transition

- 35 The feedback on the transition costs was mixed. The IASB noted that in some jurisdictions the impact on financial positions and performance because of the size of historic goodwill balances costs could be significant.
- 36 However, many respondents noted that the consequences of transition would be limited and manageable. Some respondents said the effects are not compelling enough to prevent the IASB from reintroducing amortisation of goodwill.
- 37 Although feedback is mixed, the IASB considered that transition costs could be significant for some entities in some jurisdictions and could result in temporary disruption and confusion for users.

Convergence

- 38 The IASB highlighted the importance of convergence with US GAAP on this topic. Reintroducing amortisation of goodwill would result in divergence from US GAAP and such divergence could also result in additional costs for preparers and in particular for users.

¹ Paragraphs BC131B–BC131C of the Basis for Conclusions on IAS 36.

² In the July 2017 meeting of the ASAF, the Accounting Standards Board of Japan presented a paper and suggested an option approach. ASAF members generally did not support this approach mainly because it would impair comparability.

Conclusion

- 39 The IASB considered that an amortisation model which would reduce costs would not provide useful information. Therefore, the only objective of such a model will be to reduce costs.
- 40 However, there is also doubt about how significant a reduction in costs for entities such a model would result in. There will also be additional one-off costs to transition to an amortisation-based model and ongoing costs due to divergence from US GAAP.
- 41 Therefore, on balance, the IASB decided that there was not a compelling case to explore reintroducing amortisation of goodwill to reduce costs and complexity associated with the subsequent accounting for goodwill.

Intangible Assets project

- 42 The IASB considered whether to defer the decision on subsequent accounting for goodwill because of a potential interaction with the *Intangible Assets* project and decided not to do so. The main reasons were the timing of the future project (which will only be added to a work plan in a few years) and the extensive evidence already gathered during the *Goodwill and Impairment* project.
- 43 The IASB considered that a decision in *Goodwill and Impairment* project should not pre-determine the scope of the *Intangible Assets* project and could be taken now.

EFRAG FRB discussion

- 44 EFRAG FRB discussed this topic on the 21 December 2022 together with the proposed new disclosure requirements (already discussed with EFRAG FR TEG on 3 November 2022, [AP 03-02](#)).
- 45 EFRAG FRB members noted the IASB decision to continue with the impairment-only model and expressed concerns relating to the cost benefit aspects and robustness of the proposed disclosure requirements.
- 46 Members questioned the applicability of the qualitative criteria for deciding if a business acquisition was significant, the link between negative deviations from targets and goodwill impairment and the ability of entities to follow-up individual acquisitions.
- 47 Support was provided for the work on simplification and clarification of the impairment measurement rules.

Questions for EFRAG FR TEG

- 48 Does EFRAG FR TEG have any questions on the IASB decision to retain the impairment-only model for subsequent accounting for goodwill?
- 49 Does EFRAG FR TEG have any other questions on this topic?