

Better information about business combinations

Goodwill and Impairment project

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Agenda

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What problems is the Board considering?

Better disclosures about business combinations

Amortisation of goodwill vs impairment-only model

Relief from mandatory annual quantitative impairment test

Value in use

Intangible assets

Next steps



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What problems is the Board considering?



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What problems is the Board considering?

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What the Board has heard

- Information on subsequent performance of an acquisition inadequate
- Goodwill impairment losses 'too late'
- Impairment test costly and complex
- Amortisation should be reintroduced
- Challenges identifying and measuring some intangible assets

What is the objective of the project?

Explore whether companies can provide more useful information about business combinations, enabling users to hold management to account for their acquisition decisions at a reasonable cost

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Better disclosures about business combinations



Better disclosures for business combinations

Feedback

- **Users** want to understand:
 - key drivers of the acquisition price
 - subsequent performance of the acquisition
- **Preparers**—IFRS 3 disclosures excessive



Preliminary views

- **Improve the disclosure objectives**
 - evaluate strategic rationale for business combination
 - understand key drivers of acquisition price
 - evaluate subsequent performance of acquisition
- Add **subsequent performance** disclosure requirements
- **Targeted disclosure improvements**

Better disclosures for business combinations

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Disclosure at acquisition

- Strategic rationale for the business combination (high level strategy)
- Key objectives of business combination (detailed targets)
- Metrics management will use to monitor performance

Subsequent disclosures

- Monitoring performance
 - amounts of metrics (targets)
 - if business combination not monitored – explain that
 - if metrics used changed – explain that



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Subsequent performance (1/2)

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Why is information needed?

- Stewardship
- Valuation
- Segment information alone insufficient

What metrics should be disclosed?

- Diversity of business combinations
 - No single metric suitable
 - Operational or financial metrics
- Management approach
 - Internal information more robust and cheaper
 - Insight into management assessments



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Subsequent performance (2/2)

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How long should information be provided for?

- General support for – short timeframe
- Suggest year of acquisition and two subsequent annual reporting periods
- More if management continues to review

Should all material business combinations be disclosed?

- Could be onerous disclosure for serial acquirers
- Set a higher threshold, eg chief operating decision maker (IFRS 8 *Operating Segments*)

Barriers?

- Integration
- Commercial sensitivity
- Forward-looking information



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Targeted improvements to existing requirements (1/3)

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Existing requirements

Qualitative factors that make up goodwill – eg expected synergies

Feedback

- Generic and boilerplate information
- Users want quantitative information on expected synergies

Preliminary views

- Disclose:
- Description of synergies and expected timing
 - (Range of) amounts of synergies
 - (Range of) expected costs to achieve synergies



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Targeted improvements to existing requirements (2/3)

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Existing requirements

Major class of assets acquired and liabilities assumed

Feedback

Debt and defined benefit pension obligations not separately disclosed

Preliminary views

Disclose the following major classes of liabilities:

- Liabilities arising from financing activities
- Defined benefit pensions obligations



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Targeted improvements to existing requirements (3/3)

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Existing requirements

Acquiree's revenue, profit or loss and pro forma information

Feedback

- 'Profit or loss' not defined in pro forma disclosure
- Little guidance on preparation of pro forma disclosures
- Users need information to predict performance and provide comparability

Preliminary views

- Disclosure of acquiree's revenue, operating profit or loss and cash flow from operating activities, since acquisition date
- Do not remove requirement for pro forma information



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Amortisation of goodwill vs impairment-only model



Reason for reconsidering amortisation of goodwill

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Not feasible to design impairment test to target acquired goodwill

Provide a simple mechanism for reducing acquired goodwill

Reintroduce amortisation of goodwill?

Take some pressure off the impairment test

Hold management to account by including an amortisation charge in the income statement

Arguments for reintroducing amortisation (1/2)

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- PIR feedback and subsequent research call into question Board's reasons for introducing impairment-only approach:
 - impairment test costly and complex, is it operational?
 - impairment losses 'too late', is it rigorous?
- Evidence of high failure rate of acquisitions – concerns over carrying amounts of goodwill



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Arguments for reintroducing amortisation (2/2)

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- Not feasible to devise a more effective impairment test
- Amortisation is a cost-effective mechanism that can hold management to account for its acquisition decisions
- Goodwill has a limited useful life
- Impairment-only approach mislabels consumption of goodwill as an impairment loss



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Arguments for retaining impairment-only approach 17

- Information from impairment test is useful
- Amortisation provides no useful information and can mislabel some impairment losses as consumption
- Board was aware of 'shielding issue' when developing IFRS 3 but still concluded impairment test rigorous and operational
- Impairment test assesses whether carrying amounts of acquired goodwill and other assets in CGU are recoverable from cash flows generated jointly

Arguments for impairment-only approach (cont.) 18

- If the test is operated correctly, acquired goodwill balances are not overstated
- It is not possible to estimate how goodwill diminishes over time; an arbitrary amortisation charge is not effective at holding management to account
- New disclosures to provide better information on subsequent performance
- Amortisation is not an appropriate response to issues with application of the test
- Amount of cost saving from an amortisation approach is debatable

Preliminary views

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Staff view

- Neither amortisation nor impairment-only is perfect answer
- No compelling evidence to justify reintroduction of amortisation

Preliminary views

- Do not reintroduce amortisation of goodwill
- Present total equity before goodwill in balance sheets

Small majority: both arguments to be included in DP

Discussion Paper

- Seek new evidence/views to help Board move the debate on
- Explore stakeholders' understanding of 'too late' issue and reason for their concern
- Discuss whether existing impairment test plus new disclosure sufficiently holds management to account or whether amortisation is necessary

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Relief from mandatory annual quantitative impairment test



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Relief from mandatory annual impairment test

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Existing requirements

- Mandatory annual quantitative test for goodwill and some intangible assets
- In removing requirement to amortise goodwill and some intangible assets in 2004, Board acknowledged a need for a **rigorous and operational impairment test**

Feedback

- Quantitative annual impairment test is costly and complex
- Recognition of impairment losses not timely and provides limited information



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Revert to an indicator-only approach

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Preliminary views

Permit relief from mandatory annual quantitative test and only test if there are indicators of possible impairment

Small majority and seek feedback in DP



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Revert to an indicator-only approach

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Justification for the indicator-only approach

- existing test assesses whether carrying amount of CGU containing goodwill is recoverable
- shielding limits the effectiveness of the impairment test in targeting goodwill
- frequency of quantitative impairment test should not depend on whether CGU contains goodwill

Pros	Cons
<ul style="list-style-type: none">▪ consistent with impairment test for other assets▪ reduces the cost and complexity of current test without any significant information loss▪ retaining a mandatory annual quantitative test would not meet a cost-benefit analysis	<ul style="list-style-type: none">▪ could make impairment test slightly less robust▪ could further increase management (and auditors') judgement in impairment testing▪ risks loss of good governance mechanism and useful disclosures



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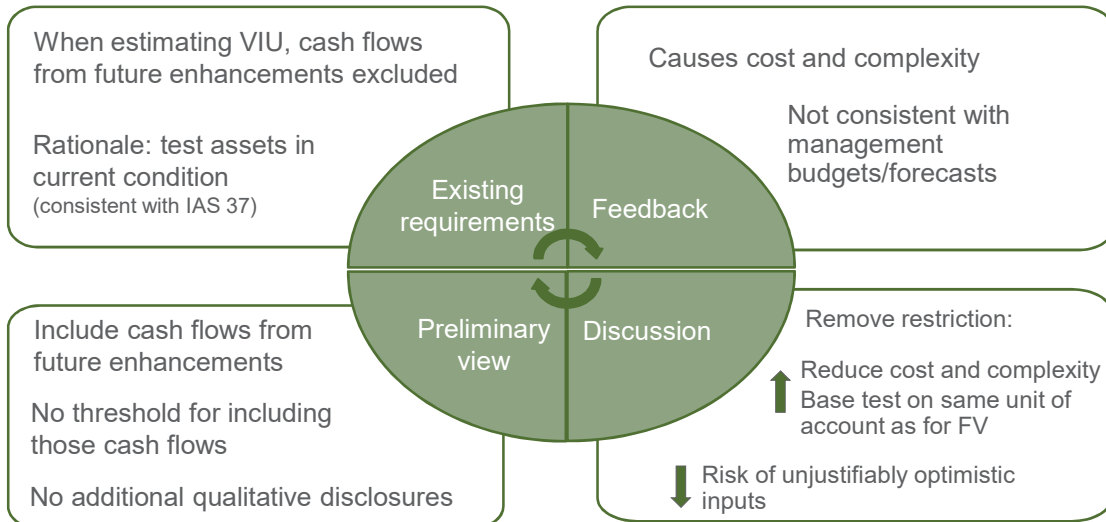
Value in use (post-tax inputs & future restructuring and enhancement cash flows)



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VIU—future restructurings and future enhancements

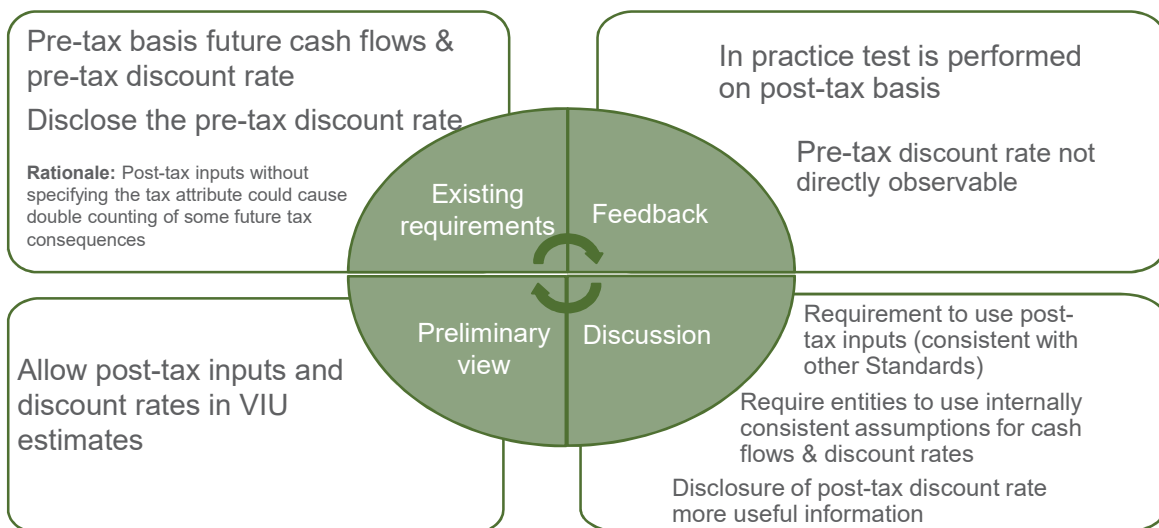
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VIU—use of post-tax inputs

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Intangible assets



Intangible assets

Problem

Challenges identifying and measuring some intangible assets

- cost
- reliability of fair value

Findings

Mixed views on cost and usefulness of information

Preliminary view

Identifiable intangible assets NOT to be included in goodwill

Next steps



Next steps

- Discussion Paper to be published
- Comment period for Discussion Paper of 180 days

Additional activities after DP issuance

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Possible activities

- **Snapshot:** a high-level and simplified summary of the main aspects of a Discussion Paper
- **Podcast:** a digital audio highlighting the main aspects of a Discussion Paper
- **Webcast:** a digital video having the discussion with Board members/IASB staff on the main aspects of a Discussion Paper
- **Regional round-table discussion with IASB:** round-table meeting with the IASB members in your jurisdiction where the jurisdiction's stakeholders can participate, including video links
- **Fieldwork:** one-to-one visits or interviews with preparers, auditors, regulators or investors in your jurisdiction, including video links

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Slido questions



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slido.com

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- We will ask you to participate in live polls on the sli.do platform.
- Insert <https://www.sli.do/> in the browser of your electronic device i.e. mobile phone, tablet or laptop. Then select the correct session from the dropdown menu.



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Slido: Subsequent performance information for all material business combinations?

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Question 1:

Do you think an entity should disclose subsequent performance information for all material business combinations whether management monitor them or not?

- A. Yes
- B. No



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Slido: Define management as CODM?

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Question 2:

If an entity discloses its business combinations based on what management monitors, do you think that management should be defined as the Chief Operating Decision Maker?

- A. Yes
- B. No



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Slido: Reason(s) for stakeholders' concerns on 'too late' issue

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Question 3:

What do you think is the main reason for stakeholders' concerns over the timeliness of goodwill impairment?

- A. Management optimism in estimates
- B. Existing test does not target goodwill directly because of 'shielding'
- C. Both



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Slido: Would clarifying purpose of test reduce concerns?

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Question 4:

The impairment test cannot directly target goodwill. Would explaining why this is the case reduce stakeholders' concerns?

- A. Yes
- B. No

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Slido: Better way to hold management to account

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Question 5:

Which approach do you think would work better with the new disclosure requirements in holding management to account?

- A. Existing impairment-only model
- B. Amortisation of goodwill (with impairment)

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Slido: Intangible assets

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Question 6:

How should intangible assets, such as customer relationships and brands, acquired in a business combination be recognised?

- A. Separate recognition—retaining existing requirement (Board's preliminary view)
- B. Include those intangibles in goodwill
- C. Consider the recognition rules for intangibles, including those generated internally, in a larger project



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Slido: Additional activities

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Question 7:

What materials/activities would be helpful in your jurisdiction to help stimulate feedback to the Discussion paper?

Please select all answers you think applicable.

- A. Snapshot
- B. Podcast
- C. Webcast
- D. Regional round-table discussion with IASB
- E. Fieldwork
- F. Other



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