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FASB | IASB Joint Education Meeting

Business Combinations—Disclosures, Goodwill and Impairment

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IASB Agenda ref 18B

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Project overview

The Discussion Paper

Objective

To improve the information companies provide to investors, at a reasonable cost, about the acquisitions those companies make

Timeline

2013–2015	2015–present	March 2020	December 2020
PIR of IFRS 3*	Goodwill and Impairment project	Discussion Paper	End of comment period

Feedback

The Board is mainly seeking comments on:

- the usefulness and feasibility of its new disclosure ideas; and
- new evidence or arguments on how to account for goodwill

* IFRS 3 introduced the impairment-only approach and replaced IAS 22 which required amortisation.

Stakeholders’ feedback from the PIR of IFRS 3 includes:

Investors do not get enough information about acquisitions and their subsequent performance

Goodwill should be amortised. It has been paid for and so, sooner or later, it should have an impact on profit or loss

The impairment test is complex and costly for companies

It is difficult for companies to account for intangible assets such as customer relationships and brands separately from goodwill

Impairment losses on goodwill are recognised too late

The Board's preliminary views

1 Improving disclosures about acquisitions	Require companies to disclose: • management's objectives for acquisitions; and • how acquisitions have performed against those objectives subsequently. Some targeted improvements to existing disclosures.	
2 Improving the accounting for goodwill	A Can the impairment test be made more effective?	Not significantly, and not at a reasonable cost.
	B Should goodwill be amortised?	No, retain the impairment-only model.
	C Can the impairment test be simplified?	Yes, provide relief from the annual impairment test and simplify value in use.
3 Other topics	• Present on the balance sheet the amount of total equity excluding goodwill. • Do not change recognition of intangible assets separately from goodwill.	

Initial feedback

1 Improving disclosures about acquisitions

Overall message

- Users generally think information would be useful
- Preparers understand the needs of users but have some concerns over implementation
- Those agreeing with the need to disclose often support the management approach (providing information that the management uses to monitor)

Disclosing objectives and performance of acquisitions

Board's preliminary view

- At the acquisition date disclose:
  - Strategic rationale and objectives
  - Metrics for monitoring achievement of objectives
- After the acquisition date disclose:
  - Performance against objectives using the metrics

Board's preliminary view

- Management defined as the Chief Operating Decision Maker (CODM) as per IFRS 8 *Operating Segments*
- Provide additional disclosures about objectives and targets based on the information about acquisitions that the CODM monitors

1 Improving disclosures about acquisitions

Disclosing objectives and performance of acquisitions

Initial feedback received

- Information is not currently provided and is needed for stewardship purposes
- Better placed in management commentary
- Integration prevents information being provided
- Information may be forward-looking and commercially sensitive
- Why is a different materiality threshold applied?
- Most say the information the CODM monitors is not granular enough

Additional feedback needed

- How can entities be encouraged to provide this information if not required in financial statements?
- Do entities really not know how acquisitions are performing when integrated? Often turns out there is some information management are using to monitor
- How does local legislation or regulation define forward-looking information? Is a target different to a forecast?
- What parts of the disclosures are commercially sensitive and why? Press releases announcing deals often provide detailed targets. Presumably these are not commercially sensitive?
- Applying the CODM approach, does this prevent the volume of disclosures being onerous or not?

1 Improving disclosures about acquisitions

Targeted disclosure improvements

Board’s preliminary view

Companies should disclose:

- Amount of expected synergies
- Debt and pension liabilities acquired
- Actual and pro-forma revenue, operating profit and operating cash flow

Initial feedback received

- Users find information about synergies useful. Some preparers say they are difficult to calculate
- General agreement for debt and pension liability disclosures
- General agreement for disclosure of operating profit; some reservations about operating cash flow

Additional feedback needed

- Some users say that information about synergies is sometimes provided in investor presentations or press releases at the time of acquisition. Why can’t this be disclosed in financial statements? Where expected, haven’t management made an estimate of synergies when deciding what price to pay?

2 Improving the accounting for goodwill

Overall message

- Stakeholders remain split over impairment-only vs amortisation
- No new evidence or arguments provided for either view since the DP was published

Simplifying and improving the impairment test

Board's preliminary view

- No compelling evidence that amortisation would be a significant improvement – retain impairment-only model
- Current impairment test cannot be significantly improved
- Provide relief from annual impairment test
- Simplify VIU calculation
  - include restructuring cash flows
  - allow post-tax calculations

Initial feedback received

- Some regulators say that addressing management optimism is not only an application issue
- Some have ideas for additional disclosure to discourage over-optimism (eg disclosure of actual vs forecasted cash flows)
- More guidance is needed on allocating goodwill to CGUs – both at the time of acquisition and after internal reconstruction
- Some are concerned that an indicator-only impairment test makes it harder to challenge management

2 Improving the accounting for goodwill

Simplifying and improving the impairment test

Initial feedback received (continued)

- The existing practical expedient in IAS 36, allowing companies to roll forward impairment tests, should be made easier to apply
- Users say information about assumptions used in the annual impairment test is useful
- Some are concerned about further over-optimism if uncommitted restructuring cash flows are included
- If restructuring cash flows are included in VIU, some say the difference between VIU and FVLCD will be minimal and that the Board should consider requiring only one method

Additional feedback needed

- What can the Board do to make the Standard easier for regulators to enforce?
- What additional guidance for allocation of goodwill to CGUs would be appropriate for the majority of entities? What words in IAS 36 are causing difficulties in practice?
- What makes it harder to challenge management's indicator assessments than the assumptions management makes in annual quantitative tests?
- What prevents companies from applying the existing practical expedient in IAS 36 today and what would make it easier to apply?

3 Other topics

Intangible assets and presenting total equity excluding goodwill

Board's preliminary view

- No compelling evidence that the recognition criteria for intangible assets acquired in a business combination should be changed
- Companies should present total equity excluding goodwill

Initial feedback received

- Views continue to be mixed about whether the separate recognition of all identifiable intangible assets in a business combination provides useful information
- Most stakeholders disagree with presenting total equity excluding goodwill
    - calls into question whether goodwill is an asset
    - unnecessary as stakeholders are able to compute the amount easily

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