IFRS® Foundation

Goodwill and Impairment

Accounting Standards Advisory Forum meeting

ASAF Agenda Paper 5

June 2021

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Overview

- Purpose of the session
- Recap of the Board's preliminary views
- Summary of feedback received and considerations
- Convergence with US GAAP

Purpose of the session

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Mar 2020	Mar – Dec 2020	Mar – Jul 2021	Sept 2021 – ...
Discussion Paper published	Consultation period	Feedback summary / Initial analysis	Board redeliberation (starting with whether to reintroduce amortisation)

To obtain ASAF members' advice on

- Considerations that the Board should take into account in its redeliberation process.
- Importance of convergence on this topic with US GAAP.

- Questions for ASAF members are on slides 16 and 20

* Detailed papers discussing feedback on the Discussion Paper can be found on the March, April and May 2021 IASB meeting pages.

Recap of the Board's preliminary views

The Board’s preliminary views

❶ 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.	
❷ 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.
❸ Other topics	• Present on the balance sheet the amount of total equity excluding goodwill. • Do not change recognition of intangible assets separately from goodwill.	

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Summary of feedback received and considerations

Objective and scope—feedback

✓

- Objective to provide users more information about business combinations at reasonable cost.

?

- Whether the Board's preliminary views:
  - Should focus on subsequent accounting of goodwill or should include disclosures as well and be viewed as a package of proposals with a unifying objective.
  - Would achieve the right balance between costs and benefits.

Legend for slides 8, 10, 12 and 14:
✓— General agreement among respondents
X— General disagreement among respondents
? — Split views among respondents

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Objective and scope—considerations

Things to consider

- Whether the project's objective remains appropriate, for all aspects of the scope of the project.
- Whether the Board should redeliberate its preliminary views as a package with a unifying objective, or to consider these topics in separate projects.
- If the Board decides to retain all aspects in a single project, there might be dependencies between various aspects of the project which would affect the sequence in which the Board redeliberates the topics.
- If the Board decides to explore different aspects in separate projects, it needs to consider which aspects it can carve out and the priority of the various aspects.

Disclosures about acquisitions—feedback

- Disclose financing and pension liabilities
- Disclose pro-forma operating profit
- Add new disclosure objectives

- Disclose pro forma cash flows
  - Costly to prepare
  - Limited usefulness

- Location of information—whether in financial statements or in management commentary
- Practical challenges
  - commercial sensitivity of information and whether it is forward looking
  - information might be difficult to audit
  - difficult to monitor performance if the acquired business is integrated
- Applying management approach for subsequent performance disclosures
- Disclosure of expected synergies

Disclosures about acquisitions—considerations

Things to consider

- Whether information about subsequent performance should be provided in the financial statements or in management commentary.
- Explore ways to address or mitigate the practical challenges for subsequent performance and synergies disclosures.
- Whether a management approach using CODM as the threshold for disclosures is appropriate.
- Review whether the balance of disclosures is right and if any existing disclosure requirements can be removed.

Subsequent accounting for goodwill—feedback

- Allow post-tax cashflows and post-tax discount rates when estimating value in use
- Allow asset enhancement / restructuring cashflows to be included in value in use estimates

- Indicator-based impairment test
  - Make impairment test less robust
  - Harder to enforce

- Whether the impairment test can be made more effective
- Retain impairment-only model or reintroduce amortisation of goodwill
  - Whether there is new conceptual or practical evidence
  - Which model provides more useful information
  - Convergence with US GAAP

Subsequent accounting for goodwill—considerations

Things to consider

- Whether to reintroduce amortisation of goodwill. In deciding that, the Board needs to consider:
  - Conceptual and practical arguments from both sides and whether there is compelling evidence for change.
  - How useful would the information be under each model.
  - Convergence with US GAAP on subsequent accounting of goodwill (see slides 18 and 19).
- If the Board decides to reintroduce amortisation for goodwill, explore how useful life should be determined, and possible transition arrangements.
- How the decision on whether to reintroduce amortisation for goodwill would affect other aspects of the project and whether that decision is contingent on other aspects of the project.
- Explore ways to improve the impairment test, for example through more guidance on allocation of goodwill to CGUs.
- Whether to pursue the preliminary view of simplifying the impairment test by adopting an indicator-based impairment approach despite concerns on the impact on robustness of test.
- Whether to provide additional guidance or requirements if some restrictions on how value in use is estimated are removed.

Other topics

- Not amending existing recognition requirement for intangible assets acquired in a business combination

- Present total equity excluding goodwill on statement of financial position
  - Information is not useful
  - Cast doubt on whether goodwill is an asset

Things to consider

- Whether to include some intangible assets in goodwill. In reaching that decision, the Board needs to consider whether that decision is affected by its decision on reintroducing amortisation of goodwill.
  - If the Board decides to change IFRS Standards it will need to consider which intangible assets to include within goodwill.
- Whether to pursue the preliminary view of requiring entities to present total equity excluding goodwill.

Priority decisions for the path forward

Objective and scope of project	• Is the project objective applicable to all aspects of the project? • Whether the Board's preliminary views are reconsidered in one project, or are split into different projects to consider separately? • If the preliminary views are to be considered in separate projects, which aspects should be considered separately?
Subsequent accounting of goodwill	• Whether to retain the impairment-only model or reintroduce amortisation and whether decision linked to other decisions? • If the Board reintroduces amortisation, the Board will need to consider the amortisation model and transition requirements. • Whether the Board could improve the effectiveness to the impairment test?
Better disclosures	• Whether to pursue ideas to improve disclosures? • Where should the information be located (for example, financial statements or management commentary)? • How to address / mitigate practical concerns that preparers have?

Question for ASAF members

Question for ASAF members

- Are there any other key pieces of feedback or considerations you think the Board should take into account during redeliberation?

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Convergence with US GAAP

Convergence with US GAAP

Where we stand currently

- IFRS and US GAAP standards on business combinations are largely converged, including the subsequent accounting of goodwill and the recognition of acquired intangible assets separately from goodwill.
- However, there are some differences notably in the respective impairment tests, for example:
  - US GAAP provides an entity with the option not to perform a quantitative impairment test if the entity passes a 'step 0' qualitative test. IFRS Standards do not have such a test.
  - IFRS Standards measure an impairment loss as the excess of carrying amount of a CGU over its recoverable amount (higher of value in use and fair value). US GAAP measures an impairment loss as the excess of carrying amount of a reporting unit over its fair value (after the removal of 'step 2').
- Entities in different jurisdictions may be subject to different disclosure requirements outside financial statements that may be set by the jurisdiction's securities regulator.
- In the Discussion Paper, stakeholders were asked if their response to questions would depend on whether the outcome is consistent with US GAAP today, or as it may be after the FASB's current work.

Convergence with US GAAP

What we heard

- Most respondents said convergence between IFRS Standards and US GAAP for goodwill accounting is desirable and is an important factor to consider for the project.
- However, many respondents are not willing to compromise on their preferred goodwill treatment for convergence.
- Some respondents are concerned that the Board's view to improve disclosures put entities applying IFRS Standards at a disadvantage compared to those applying US GAAP.

Things to consider

- There are differences in the existing impairment models and disclosure requirements between US GAAP and IFRS Standards.
- Similarities and differences in the feedback on FASB ITC and IASB DP.
- Whether there is any difference in the objectives and scope of FASB and IASB's projects, and how these differences could affect the outcome of the projects.
- What does convergence mean, for example if both boards adopted an amortisation model do the models need to be converged (pattern, period, etc.)
- What could the potential cost for preparers and users be if the standards diverged.

Questions for ASAF members

Questions for ASAF members

- What do stakeholders mean when they refer to convergence:
  - Is it only the subsequent accounting of goodwill or does it include disclosures for business combinations or the recognition of intangible assets separate from goodwill?
  - What level of convergence is expected, given that there are already differences in existing models (for example, if both boards reintroduce amortisation of goodwill, whether convergence should cover the amortisation model itself)?
- What are the estimated costs of divergence for users and preparers respectively, considering that many said it is relatively easy to adjust for the difference?
- Could the differences in existing accounting models, as well as in project objectives and feedback received by the two boards on their respective projects, justify different outcomes?
- Or is maintaining convergence on the accounting for goodwill the most important factor to consider when deciding whether to change the business combination requirements in IFRS Standards?

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