IFRS

STAFF PAPER

May 2021

IASB® meeting

Project	**Goodwill and Impairment**
Paper topic	Overview of the feedback on the Discussion Paper

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This paper is unchanged from Agenda Paper 18A to the Board's March 2021 meeting except for the removal of the question for the Board.

Purpose and structure of this paper

1. This paper provides the International Accounting Standards Board (Board) with:

   (a) a summary of the stakeholder engagement activities performed on the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*; and

   (b) a high-level summary of feedback on the Board's preliminary views included in the Discussion Paper.

2. The paper is structured as follows:

   (a) Background (paragraphs 3–4);

   (b) Sources of feedback (paragraphs 5–16); and

   (c) Overview of feedback on the Board's preliminary views (paragraphs 17–49).

Background

3. The Board completed a Post-implementation Review (PIR) of IFRS 3 *Business Combinations* in 2015. The purpose of a PIR is to identify whether a Standard is

working as the Board intended. The Board started its research project on Goodwill and Impairment to consider areas of focus identified in the PIR.

4. The project's objective is to explore whether an entity can, at a reasonable cost, provide users of financial statements (users) with more useful information about the business combinations those entities make. The Board published the Discussion Paper in March 2020 outlining its preliminary views that the Board:

   (a) should develop proposals to enhance the disclosure objectives and requirements in IFRS 3 to improve the information provided to users about a business combination and its subsequent performance;

   (b) cannot design a different impairment test for cash-generating units (CGUs) containing goodwill that is significantly more effective than the impairment test in IAS 36 *Impairment of Assets* at recognising impairment losses on goodwill on a timely basis and at a reasonable cost;

   (c) should not reintroduce amortisation of goodwill;

   (d) should develop a proposal to help users better understand an entity's financial position by requiring the entity to present on its statement of financial position the amount of total equity excluding goodwill;

   (e) should develop proposals intended to reduce the cost and complexity of performing the impairment test by:

      (i) providing an entity with relief from having to perform an annual quantitative impairment test for CGUs containing goodwill if there is no indication that an impairment may have occurred; and

      (ii) extending the same relief to an entity for intangible assets with indefinite useful lives and intangible assets not yet available for use;

   (f) should develop proposals intended to reduce cost and complexity, and to provide more useful and understandable information by simplifying the requirements for estimating value in use by:

(i) removing the restriction on including cash flows from a future uncommitted restructuring or from improving or enhancing an asset's performance; and

(ii) permitting the use of post-tax cash flows and post-tax discount rates; and

(g) should not change the range of identifiable intangible assets recognised separately from goodwill in a business combination.

Sources of feedback

5. The Board received feedback on its preliminary views from:

(a) outreach meetings (paragraphs 6–10);

(b) fieldwork (paragraphs 11–13);

(c) comment letters (paragraphs 14–16); and

(d) reviewing academic literature.[1]

Outreach meetings

6. During the comment period, Board members and the staff attended 94 meetings with respondents across different regions and stakeholder groups. These meetings included:

(a) 30 meetings with users and user groups (including some user group meetings convened by national standard setters);

(b) 20 webinars and conferences with mixed audiences;

(c) 18 meetings with national standard-setters;

(d) 14 meetings with preparers and preparer groups;

(e) 8 meetings with accounting firms and accounting bodies;

(f) 3 meetings with academic groups; and

[1] The staff will provide the Board with an Agenda Paper summarising the academic literature at the Board's May 2021 meeting.

(g) 1 meeting with a regulator group.

7. Board members and the staff met with some respondents, including representative bodies, national standard-setters and international accounting firms, more than once during the comment period. For these respondents, the first meeting focused on explaining the Board's preliminary views and answering any questions that the respondent might have. This was followed by a subsequent meeting to receive comments on the Board's preliminary views.

8. The Board also received feedback on the Discussion Paper from the Board's consultative bodies, including the:

(a) Accounting Standards Advisory Forum (ASAF);

(b) Emerging Economies Group (EEG);

(c) Global Preparer Forum (GPF); and

(d) Capital Markets Advisory Forum (CMAC).

9. Additionally, Board members and the staff recorded two webinars about the Board's preliminary views. The first webinar was translated into five different languages to reach a wider audience.

10. The Discussion Paper was also discussed at the IFRS Foundation Virtual Conference and the joint meeting between the Board and the US Financial Accounting Standards Board (FASB) in 2020.

Fieldwork

11. The staff conducted fieldwork on the Board's preliminary views on improving the information about the subsequent performance of a business combination. The purpose of the fieldwork was to understand whether those preliminary views would be feasible, and whether the resulting information would be useful to users. The fieldwork did not involve asking whether participants agreed with the Board's preliminary views. It also did not cover any other aspect of the Board's preliminary views.

12. The staff held kick-off meetings with participants to explain the Board's preliminary views and asked them to prepare mock disclosures based on the Board's preliminary

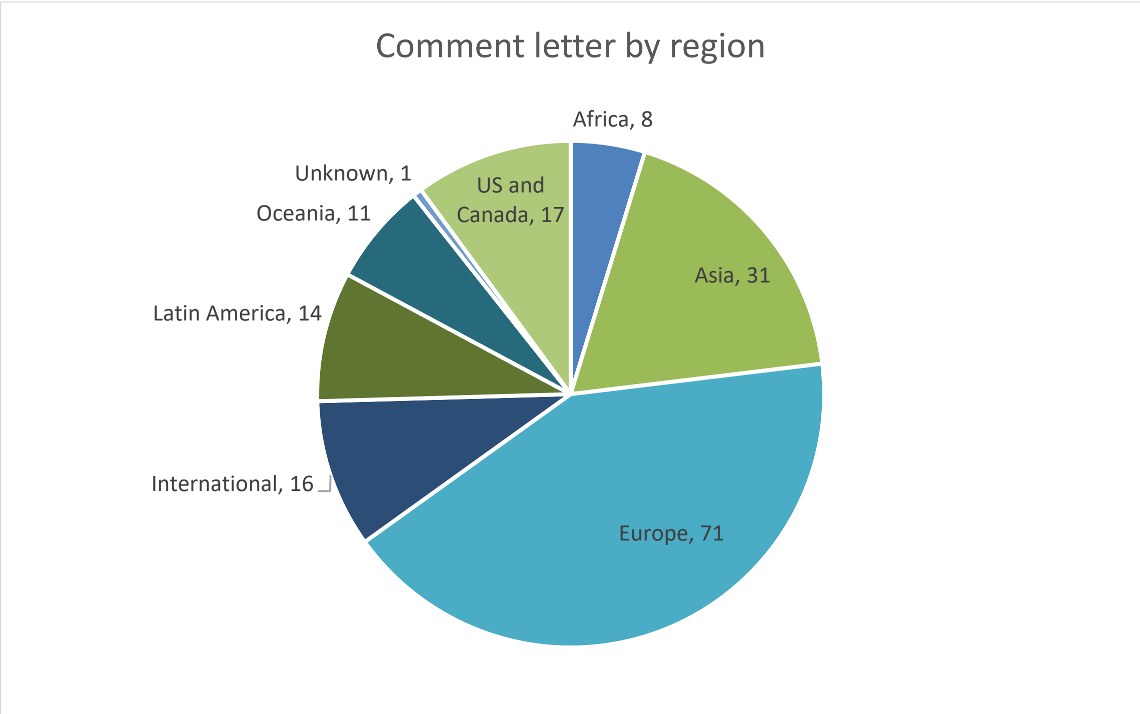
views. After receiving the mock disclosures from the fieldwork participant, the staff followed up with a subsequent interview to identify what practical challenges the participant faced in preparing the mock disclosures.

13. Eight entities participated in the fieldwork process. Participants were based in Australia, China, France, Italy, Japan, Switzerland and the UK. The participants included entities in banking, construction and engineering, consumer electronics, insurance, media and entertainment, materials, pharmaceuticals and utilities.

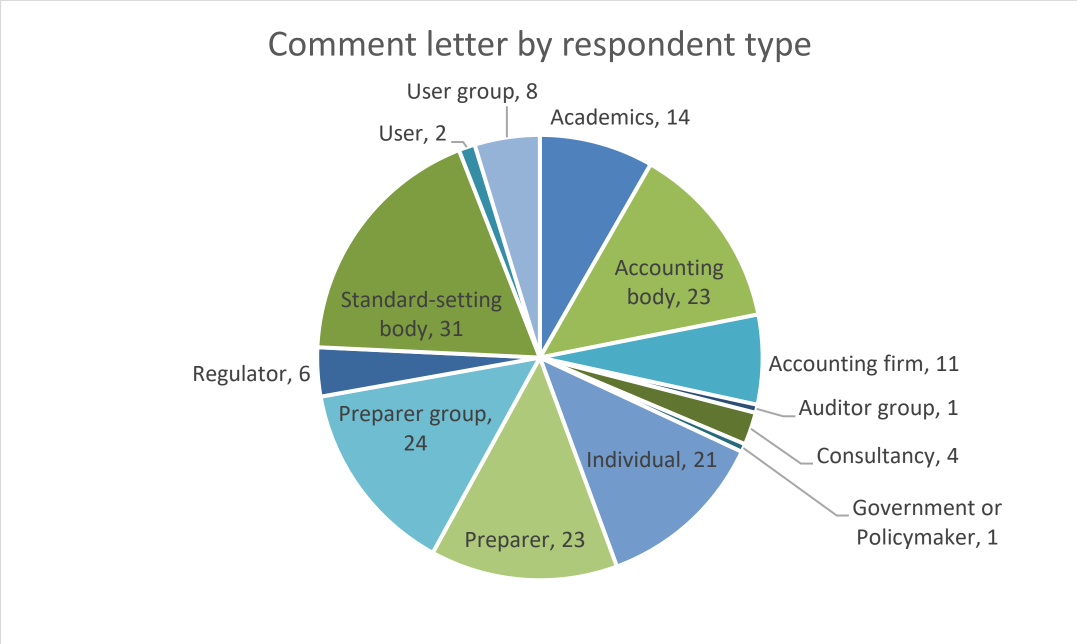
Comment letters

14. The Board received 193 comment letters on the Discussion Paper. They are all available on our website. The feedback presented to the Board does not include analysis of 24 comment letters submitted by students as part of their coursework assignment.

15. This pie chart illustrates the breakdown of comment letters by geographical region:



16. This pie chart illustrates the breakdown of comment letters by respondent type:



Overview of feedback

Quantifying feedback received

17. In this and future Agenda Papers the staff will use the following terms to quantify the feedback of respondents on various topics:

Term	Description
Almost all	All except a very small minority
Most	A large majority, with more than a few exceptions
Many	A small majority or large minority
Some	A small minority, but more than a few
A few	A very small minority

18. The Board received feedback on all aspects of the Discussion Paper. However, not all respondents commented on all questions in the Discussion Paper. When using the terms described in paragraph 17 to quantify respondents' comments on an issue, these terms are, unless otherwise stated, defined by reference to the number of respondents who commented on that issue.

19. Paragraphs 20–49 provide a summary of feedback received. In that summary, the term 'respondents' refers to all stakeholders who commented, either through comment letters or during outreach meetings.

Project Objective

20. Most respondents who commented agreed with the project's objective of exploring whether entities can, at a reasonable cost, provide users with more useful information about the business combinations those entities make.

21. However, some respondents, notably in Germany and Japan, disagreed with the project's objective. They said that in the PIR of IFRS 3, the subsequent accounting of goodwill was identified as a high priority area of focus but providing better information about the subsequent performance of business combinations was assessed as a medium priority. In their view, therefore, the project's objective should be to address the effectiveness of the impairment test, rather than to focus on improving the disclosures an entity provides to users about business combinations.

22. However, some other respondents said that the disclosures outlined in the Discussion Paper would help in addressing some aspects of the so-called 'too little, too late' problem. In particular, they might help users to identify whether a business combination is performing below expectations in situations where no impairment loss has been recognised on goodwill.

Overall package

23. Some respondents said that the Board's package of preliminary views would achieve the right balance between improving the information provided to users and limiting the cost to preparers.

24. Other respondents said they did not view the Board's preliminary views as a package of views with a unifying objective. These respondents said the Board should consider some aspects of the Discussion Paper in separate projects.

25. For example, some preparers said that the only unifying objective appears to be cost. These respondents said the Board appears to consider the cost savings from changes to the impairment test sufficient to offset any additional cost from adding

requirements to disclose more information about business combinations. However, those preparers said that the costs of the additional disclosure requirements are likely to be higher than cost savings from simplifications to the impairment test. Those respondents said that the Board should simplify the impairment test in a separate project that could be finalised before other aspects of the Discussion Paper.

26. Other respondents said the Board should consider the accounting for goodwill separately from the Board’s preliminary views about improving the disclosure requirements in IFRS 3.

Subsequent performance of business combinations

27. Respondents generally agreed that users need better information about business combinations. However, there was mixed feedback on the preliminary views in the Discussion Paper. Specifically:

    (a) many respondents, including almost all users, agreed with the Board’s preliminary views; and

    (b) many respondents, including almost all preparers, disagreed with the Board’s preliminary views.

28. Many respondents, including those who agreed and those who disagreed with the Board's preliminary views, said that there are practical challenges that would make it costly to disclose the information being considered by the Board. Notably, many preparers said that the information is commercially sensitive and would be difficult to audit. There were also concerns that the information is forward looking and that subsequent integration of the acquired business into the acquirer’s existing business would be a barrier to providing useful information.

29. Some respondents, mainly in Europe, were concerned that being required to disclose information about the subsequent performance of business combinations will put entities using IFRS Standards at a disadvantage compared to other entities, notably those reporting using US generally accepted accounting principles (US GAAP).

30. Many respondents said that the information being considered by the Board should be provided in management commentary rather than in the notes to the financial statements.

31. Most respondents agreed that if the Board were to introduce additional disclosure requirements in this area, the requirements should follow a management approach, whereby an entity's disclosures would be based on the information its management monitors internally, instead of specifying which metrics to disclose.

32. However, respondents expressed mixed views on whether the disclosures should be based on the information that an entity's Chief Operating Decision Maker (CODM) monitors. Moreover, respondents had different perceptions about how much detail the CODM monitors for business combinations. Specifically:

    (a) many respondents said that using the CODM as the threshold is a practical approach that provides a reasonable cost-benefit balance;

    (b) some respondents said that the CODM monitors only the most significant business combinations, and that the Board's preliminary view would result in users not receiving information about all material business combinations; and

    (c) a few respondents said that the CODM monitors the performance of many business combinations, including immaterial ones—they said that the Board's preliminary view would result in entities disclosing too much information.

Targeted improvements to existing disclosures

33. Of the Board's other preliminary views on disclosures, the requirement to disclose additional quantitative information about synergies attracted most comment. The Board received mixed feedback on this preliminary view.

34. Many respondents agreed with the Board's preliminary view, saying that they expected the information will be useful for users. However, many respondents disagreed with the preliminary view because, in their view, such information is costly and difficult to prepare and audit, could be commercially sensitive or should be disclosed in management commentary rather than in financial statements. Many respondents said the Board should define synergies if it requires entities to disclose more information about them in financial statements.

35. Respondents generally agreed with the Board's preliminary views that it should add new disclosure objectives and a requirement to disclose debt and pension liabilities obtained in a business combination.

36. There was mixed feedback on the Board's preliminary views on information about the contribution of the acquired business. In particular, many respondents disagreed with the Board's preliminary view that it should require disclosure of operating cash flow information. In their view, such information may not be useful and providing it would be costly.

Subsequent accounting for goodwill

37. Most respondents agreed with the Board's preliminary view that it is not feasible to design a different impairment test that is significantly more effective than the impairment test of CGUs containing goodwill in IAS 36 at a reasonable cost. However, many of those respondents suggested how the Board could improve the application of the impairment test in IAS 36. In particular, many respondents suggested ideas for additional disclosure requirements to combat management over-optimism and suggested the Board develop additional guidance to improve the level at which goodwill is allocated to CGUs to reduce the 'shielding' effect described in the Discussion Paper.

38. Respondents remain divided on whether the Board should reintroduce amortisation of goodwill. Many respondents agreed with the Board's preliminary view to retain the impairment-only approach but many other respondents disagreed with the Board's preliminary view and instead advocated reintroducing amortisation of goodwill. In particular:

    (a) individual users and user groups were split in their views;

    (b) most preparers and many national standard-setters advocated reintroducing amortisation of goodwill; and

    (c) a few respondents (for example, some accounting firms, accounting bodies and national standard-setters, and many regulators) did not offer a view, with many observing the merits and limitations of both models and mixed views within their organisations.

39. In terms of geographical trends, there was a strong preference for the reintroduction of amortisation of goodwill from respondents across different stakeholder groups in some countries, such as Brazil, Germany and Japan. In terms of regions, there was strong support for the reintroduction of amortisation of goodwill from respondents in Europe.

40. Respondents provided numerous arguments to support their views and these arguments could be grouped into two broad categories:

    (a) conceptual reasons (for example, that goodwill is a wasting asset with a finite life or, conversely, that the impairment test provides better information for users than amortisation would); and

    (b) practical reasons (for example, that the impairment test is not working and the Board has been unable to make the test more effective or, conversely, that there is not enough compelling evidence to support a change).

41. Respondents generally did not provide new conceptual arguments or evidence in favour of either retaining the impairment-only approach or reintroducing amortisation of goodwill. However, some respondents said that the limitations of the impairment test observed in practice provided new practical evidence that supported reintroducing amortisation of goodwill. Some respondents also pointed to the increase in entities' goodwill balances and some of these respondents provided quantitative analysis of that increase. A few respondents said that their positions on this topic had changed in recent years and most of those respondents said they had changed their view to favour the reintroduction of amortisation—generally due to the limitations of the impairment test.

42. Most respondents said that convergence on this topic with US GAAP was desirable. Some of these respondents went further and said maintaining convergence was more important than adopting a particular accounting model for goodwill. However, many respondents said that their view did not depend on maintaining convergence, or that the Board should base its decision on the evidence it has collected rather than solely on maintaining convergence.

Simplifying the impairment test

43. Most respondents, including some preparers, did not support the Board's preliminary view that it should implement an indicator-based impairment test for goodwill. In their view, adopting such an approach could:

    (a) increase the level of subjectivity in the test and reduce the ability of auditors and regulators to challenge management assumptions, hence reducing the effectiveness and robustness of the impairment test;

    (b) deprive users of useful information currently required about the assumptions management used in the impairment test, such as the growth or discount rate used; and

    (c) lead to additional costs for an entity to document its assessment of potential impairment indicators in sufficient detail to satisfy auditors and regulators.

44. Some respondents, mostly preparers, supported the indicator-based approach because it could help an entity save costs and, in their view, when there are no indications of impairment, the benefits of performing an impairment test are minimal. Some other respondents commented that they would not support the indicator-based impairment test without amortisation of goodwill.

45. Respondents generally welcomed the Board's preliminary views on simplifying and improving how value in use should be estimated:

    (a) almost all respondents supported allowing the use of post-tax cash flows and post-tax discount rates.

    (b) many respondents who commented on the inclusion of asset enhancement or restructuring cash flows in value in use estimates supported removing the restrictions on including those cash flows. Some respondents who supported the Board's preliminary view suggested the Board place some constraints on when these cash flows would be included. Some respondents disagreed with the Board because, in their view, allowing the inclusion of those cash flows could exacerbate management over-optimism in impairment tests.

Other topics

46. Almost all respondents disagreed with the Board's preliminary view that it should require an entity to present in its statement of financial position an amount representing total equity excluding goodwill. In their view, users can easily calculate this amount and presenting that amount could cast doubt on whether goodwill is an asset. Many respondents suggested that the Board's proposal in the Exposure Draft *General Presentation and Disclosures*, which requires an entity to present the carrying amount of goodwill on the statement of financial position, is sufficient to address the Board's concern that goodwill is not presented with sufficient prominence. A few respondents, including some users, agreed with the Board's preliminary view because presenting this additional amount would enhance transparency and benefit inexperienced users.

47. Most respondents agreed with the Board's preliminary view that it should not develop proposals to include in goodwill some separately identifiable intangible assets recognised in a business combination. In their view, the separate recognition of these intangible assets provides useful information and they did not see a need for change.

48. However, a few of these respondents commented that if the Board reintroduces amortisation of goodwill, the Board should also, on cost-benefit grounds, consider including some identifiable intangible assets acquired in a business combination in goodwill. In these respondents' view, if the same subsequent accounting approach is applied to both goodwill and these intangible assets, it would be no longer necessary to recognise those intangible assets separately.

49. Some respondents commented that the Board should consider undertaking a broader scope project on intangible assets. In their view, the new project should seek to align the accounting treatments for acquired and internally generated intangible assets to create a level playing field between those entities which grow organically and those entities which grow mainly through acquisitions. Some respondents also said that the objective of the new project could include providing better disclosures about an entity's internally generated intangible assets.