IFRS

STAFF PAPER

September 2021

IASB® meeting

Project	Goodwill and Impairment		
Paper topic	Project Plan		
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Purpose and structure

1. The purpose of this paper is to present the International Accounting Standards Board (Board) with an updated project plan for the Board's redeliberations of its preliminary views in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*.

2. The paper is structured as follows:

   (a) staff observations from the Board's July 2021 meeting (paragraphs 4–7); and

   (b) updated project plan (paragraphs 8–24).

3. The appendix to the paper contains a graphical representation of our updated project plan.

Staff observations from the Board's July 2021 meeting

4. In July 2021 we provided the Board with our analysis of feedback on the Board's preliminary views on the subsequent accounting for goodwill, including whether to reintroduce amortisation of goodwill. We included potential options on how the Board could proceed on this topic.

5. To support this analysis, we also provided our analysis of feedback on (a) the location of the information resulting from, and practical challenges related to, the Board's

preliminary views on improving disclosures about business combinations; and (b) the effectiveness of the impairment test.

6. The July 2021 meeting was educational. We had planned to ask the Board to make a tentative decision on the subsequent accounting for goodwill in September 2021.

7. However, at the July 2021 meeting many Board members said they would like to consider this question as part of a broader package that aims to meet the project's objective—that is, to explore whether entities can, at a reasonable cost, provide users of financial statements (users) with more useful information about the business combinations those entities make. In particular, those Board members said they would like more information to help them make a decision on the subsequent accounting for goodwill. That additional information included:

    (a) the disclosures about business combinations the Board tentatively decides to propose after its redeliberations, which many Board members said is an important part of the broader package; and

    (b) further analysis on some aspects of the feedback on the subsequent accounting for goodwill, in particular:

        (i) the feasibility of estimating a useful life of goodwill; and

        (ii) the effect on historic goodwill balances of transitioning to an amortisation model.

Project plan

8. Given our observations in paragraph 7, in the coming months we plan to undertake work to provide the Board with additional information:

    (a) to make tentative decisions about disclosures about business combinations (paragraphs 10–14); and

    (b) on the subsequent accounting for goodwill to help inform a decision on whether to reintroduce amortisation (paragraphs 15–21).

9. Paragraphs 22–23 discuss our plan for other topics in the project and paragraph 24 compares our project plan with the US Financial Accounting Standards Board's (FASB) project on this topic.

Disclosures about business combinations

10. Agenda Paper 18A to the Board's July 2021 meeting provided the Board with our analysis of some common matters raised by respondents on the Board's preliminary views to add to IFRS 3 *Business Combinations* additional disclosure objectives, requirements for an entity to disclose information about the subsequent performance of business combinations and requirements for an entity to provide quantitative information about expected synergies arising from a business combination. In particular, that paper analysed feedback on:

    (a) the practical challenges of providing these disclosures; and

    (b) the location of these disclosures—whether it is appropriate to disclose this information in financial statements.

11. As noted in paragraphs 28, 58 and 71 of Agenda Paper 18A to the Board's July 2021 meeting, we could start by developing illustrative examples considering the fieldwork we undertook. These illustrative examples would better explain the information the Board expected entities to provide when applying the Board's preliminary views.

12. We would test these examples with users, preparers, auditors and regulators. The purpose of developing and testing these examples would be to determine whether feedback on the practical challenges of applying the Board's preliminary views (for example that the information that would be required applying the Board's preliminary view is commercially sensitive) is simply the result of different expectations between the Board's stakeholders.

13. The outcome of our work on illustrative examples will help the Board decide whether it is feasible to continue with its preliminary views regarding disclosures about the subsequent performance of business combinations and quantitative information about expected synergies. Input from the illustrative examples will assist the Board in identifying any changes the Board might need to consider. For example, if discussions on the illustrative examples indicate that concerns about commercial sensitivity remain, the Board may wish to explore some of the possible alternatives described in Agenda Paper 18A (such as requiring specific metrics or a 'comply or explain' approach).

14. In addition to the work on illustrative examples, we think that to understand what the package of disclosures would look like, the Board would also be required to tentatively decide on various other aspects of the disclosures. In particular, we think the Board would need to make tentative decisions on:

(a) various aspects of the Board's preliminary view to require information about the subsequent performance of business combinations, including:

(i) the location of the information—whether it is appropriate to disclose this information in financial statements.

(ii) the management approach—whether it is appropriate to use the information an entity's Chief Operating Decision Maker reviews to identify the business combinations and information to be disclosed.

(iii) the length of time for which to require these disclosures.

(iv) other aspects raised in feedback—for example the scope of entities subject to the disclosure requirements.

(b) the definition of 'synergies' and when those synergies are 'realised'.

(c) whether to specify that pension and debt liabilities are major classes of liabilities an entity is required to disclose applying paragraph B64(i) of IFRS 3.

(d) whether to retain the requirement in paragraph B64(q) of IFRS 3 to disclose information about the contribution of the acquired business and if so whether to:

(i) develop guidance on how an entity should prepare that information;

(ii) specify that profit or loss is operating profit or loss as defined in the Exposure Draft *General Presentation and Disclosures*; and

(iii) add a requirement for an entity to disclose cash flows from operating activities of the acquired business after the acquisition date, and of the combined business on a pro forma basis for the current reporting period.

(e) what, if any, of the disclosure requirements in IFRS 3 could be removed without depriving users of material information.

Subsequent accounting for goodwill

15. At the July 2021 Board meeting some Board members requested additional analysis on some aspects of the feedback on the subsequent accounting for goodwill to help inform a decision on whether to retain the impairment-only model or reintroduce amortisation of goodwill. In particular, Board members requested additional information about:

    (a) the feasibility of an entity being able to estimate the useful life of goodwill (paragraphs 17–19); and

    (b) the effect on historic goodwill balances of transitioning to an amortisation model (paragraphs 20–21).

16. We could analyse these matters within the context of helping the Board assess the feasibility of reintroducing amortisation of goodwill and not with the objective of developing a detailed amortisation model. After the Board has made tentative decisions on the disclosures about business combinations, we would ask the Board for a tentative decision on the subsequent accounting for goodwill. In making that decision, the Board would consider the tentative decisions it makes on the disclosures about business combinations and our analysis of the matters in paragraph 15. The following paragraphs discuss the analysis we would perform on these matters.

Estimating useful life of goodwill

17. As noted in paragraphs 39–45 of Agenda Paper 18D to the Board's July 2021 meeting, we identified a shift in views on whether entities can reliably estimate the useful life of goodwill.

18. The Board's decision to introduce the impairment-only model in 2004 was based on a conclusion that the useful life of goodwill cannot be reliably estimated and any amortisation would be arbitrary. However, some respondents to the Discussion Paper said an amortisation model could provide useful information. In response to question 7(f)[1] in the Discussion Paper, many respondents suggested basing the useful life of

[1] Question 7(f) of the Discussion Paper asked 'If you favour reintroducing amortisation of goodwill, how should the useful life of goodwill and its amortisation pattern be determined? In your view how would this contribute to making the information more useful to investors?'

goodwill (and the amortisation pattern) on managements' estimates. Respondents suggested using for example, a business combination's expected payback period, synergies or other benefits.

19. We could analyse the feasibility of determining a useful life of goodwill. In particular, our analysis could consider the costs in assessing (and reassessing) the useful life of goodwill on a transaction-by-transaction basis, the usefulness of such information, and the merits of the estimation bases suggested by respondents.

Transition

20. A few respondents commented on transition to an amortisation model if amortisation is reintroduced, with many of these concerned about the potential effect of transition on entities' reported financial positions. One national standard-setter said in the absence of absolute evidence to support reintroducing amortisation, they favoured retaining the impairment-only model because of the potential effect of transition on capital markets and entities' reported financial positions.

21. We plan to analyse potential transition methods and the potential effect of those methods by:

    (a) estimating the value of goodwill that exists on entities' statements of financial position and therefore, the value of the potential effect of transition on entities' reported financial positions; and

    (b) investigating any effects of the different transition methods on entities' listing status, ability to distribute reserves and any other effects.

Other areas

22. We intend to prioritise the work described in paragraphs 10–21. However, we will also provide the Board with analysis on:

    (a) the feasibility of designing a more effective impairment test than the test in IAS 36 *Impairment of Assets* at a reasonable cost.

    (b) amending IAS 36 to improve the application of the impairment test.

    (c) the Board's preliminary view to provide relief from the requirement to perform an annual quantitative impairment test for cash-generating units containing goodwill if there is no indication that an impairment may have occurred.

(d) the Board's preliminary view to reduce cost and complexity, and to provide more useful and understandable information by simplifying the requirements for estimating value in use.

(e) changing the range of identifiable intangible assets recognised separately from goodwill in a business combination.

(f) whether to require an entity to present on its statement of financial position an amount of total equity excluding goodwill.

23. The timing of the Board's discussion on the topics listed in paragraph 22 depends on staff resources.

Comparison with FASB's project

24. In July, the Board and the FASB held a joint educational meeting and discussed their respective goodwill and impairment projects, which cover similar topics. However, each board is sequencing discussion of the various topics of their projects differently. For example, the project plan set out in paragraphs 8–22 would prioritise discussions about disclosures. In contrast, the FASB has focused on the subsequent accounting for goodwill and has, recently, asked their staff to research factors and criteria that would justify deviation from a default amortisation period. Our project plan proposed above could enable the sharing of information, for example, on the feasibility of estimating a useful life of goodwill.

Question for the Board
Does the Board agree with the project plan set out in paragraphs 10–22? In particular, does the Board agree that the staff should prioritise performing further work to: a) ask the Board for tentative decisions on disclosures about business combinations as set out in paragraphs 10–14; and b) provide the Board with analysis on aspects of the feedback on the subsequent accounting for goodwill as set out in paragraph 15–21.

Appendix—Project Plan

The diagram below illustrates our plans for future research and Board discussions.