

# GOODWILL AND IMPAIRMENT

EFRAG Board meeting

18 December 2019  
Agenda paper 09-02

# DISCLAIMER

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# What problems is the IASB considering?

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## What the IASB has heard?

Information on subsequent performance of an acquisition inadequate

Goodwill impairment losses 'too late'

Impairment test costly and complex

Reintroduction of amortisation

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 accountable for their acquisition decisions at a reasonable cost

## EFRAG contributed to the PIR and to the debate

Discussion Series Paper *Should Goodwill still not be amortised? – Accounting and Disclosure for Goodwill* (July 2014)

Discussion Paper *Goodwill Impairment Test: Can It Be Improved?* (June 2017)

# Overview of the IASB considerations

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- Amortisation of goodwill vs impairment-only model
- Relief from mandatory annual quantitative impairment test
- Value in use calculation
- Better disclosures about business combinations

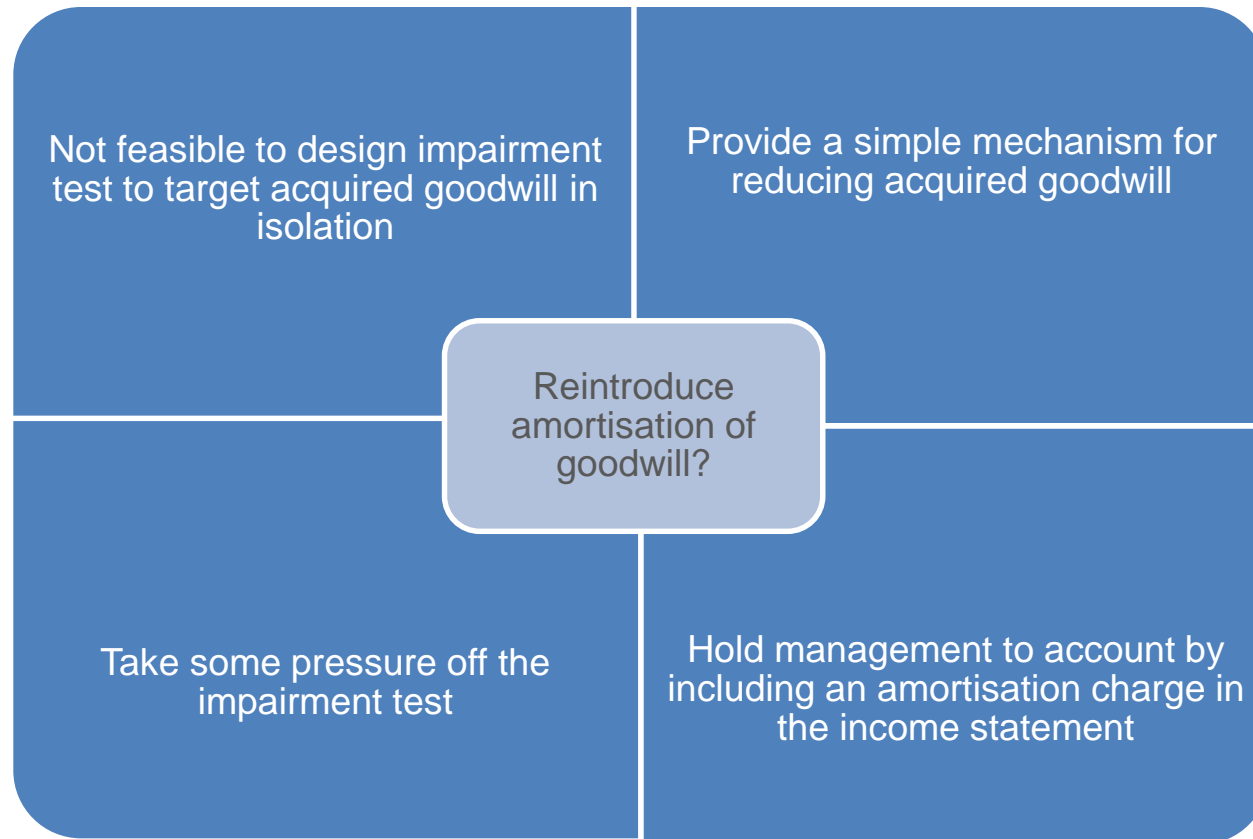


# AMORTISATION OF GOODWILL VERSUS IMPAIRMENT- ONLY MODEL

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# Reasons for reconsidering amortisation of goodwill

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# Arguments for reintroducing amortisation and for retaining impairment only approach

Amortisation	Retaining impairment-only approach
PIR feedback: too late and too costly	Information from impairment is useful
Evidence of high failure rate of acquisitions – concerns over carrying amounts of goodwill	Amortisation provides no useful information and can mislabel some impairment losses as consumption
Not feasible to devise a more effective impairment test	In spite of “shielding” - impairment test is rigorous and operational
Amortisation is a cost-effective mechanism that can hold management to account for its acquisition decisions	Impairment test assesses whether carrying amounts of acquired goodwill and other assets in CGU are recoverable from cash flows generated jointly
Goodwill has a limited useful life	If impairment test operated correctly, acquired goodwill balances are not overstated
Impairment-only approach mislabels consumptions of goodwill as an impairment loss	It is not possible to estimate how goodwill diminishes over time; an arbitrary amortisation charge is not effective at holding management account
	New disclosures to provide better information on subsequent performance

# Preliminary views

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## IASB Staff view

Neither amortisation nor impairment-only is perfect answer

No compelling evidence to justify reintroduction of amortisation

## IASB tentative decision

Do not reintroduce amortisation of goodwill (with only a slight majority (8/14))

To present total equity before goodwill in balance sheets.

## Discussion Paper

Seek new evidence/views to help IASB move the debate on

Explore stakeholder 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.





# RELIEF FROM MANDATORY ANNUAL QUANTITATIVE IMPAIRMENT TEST

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# Relief from mandatory annual impairment test

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- **Existing requirements** – mandatory quantitative test for goodwill and some intangible assets
- **Feedback received**
  - Quantitative annual impairment test is costly and complex
  - Recognition of impairment losses not timely and provides limited information
- **Preliminary view** (slight majority): *Revert to an indicator-only approach*
  - Permit relief from mandatory annual quantitative test and only test if there are indicators of possible impairment

# 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 CGUs contain goodwill

## Pros

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

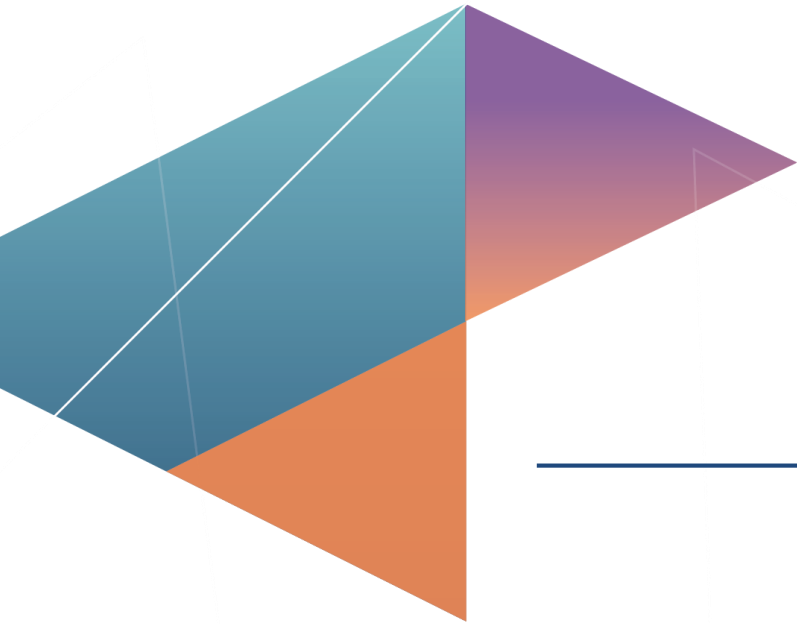
## Cons

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

Result in some limited loss of information



VALUE IN USE:  
POST-TAX INPUTS  
FUTURE RESTRUCTURING  
CASH FLOWS

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# VIU-Future restructuring and future enhancements

## Existing Requirement

When estimating value in use, cash flows from future enhancements excluded

Rationale: test assets in current condition (consistent with IAS 37)

## Feedback received by the IASB

Causes cost and complexity

Not consistent with management budget/forecast

## IASB Preliminary view

Include cash flows from future enhancements

No threshold for including those cash flows

No additional qualitative disclosures

## Discussion: If the restriction is removed

Pro: Reduce cost and complexity  
Base test on the same unit of account for FV

Con: Risk of unjustifiable optimistic inputs

# Value in use -Use of post-tax inputs

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## Existing Requirement

Pre-tax basis future cash flows and discount rate and disclose the pre-tax discount rate

Rationale: Post tax inputs without specifying the tax attribute could cause double counting of some future tax consequences

## Feedback received by the IASB

In practice test is performed on post-tax basis

Pre-tax discount rate not directly observable

## IASB Preliminary view

Allow post-tax inputs and discount rates in value in use estimates

## Discussion:

Requirement to use post-tax inputs (consistent with other IFRS Standards)

Require entities to use internally consistent assumptions for cash flows and discount rates

Disclosure of post-tax discount rate more useful information



## Better disclosures about business combination

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# 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

## IASB preliminary views

Improve 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 combination

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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
- If metrics used changed



# Intangible assets

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# Intangibles assets

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## Problem

Challenges identifying and measuring some intangible assets:


- Cost
- Reliability of fair value

## Finding

Mixed views on cost and usefulness of information

## Preliminary view

Identifiable intangible assets NOT to be included in goodwill



FASB Invitation to Comment  
- *Identifiable Intangible Assets  
and Subsequent Accounting for  
Goodwill*

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# FASB Invitation to Comment (ITC)

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- **Issued in July 2019** – comments requested by 7 October 2019.
- **4 main sections**
  - Section 1: Whether to change the subsequent accounting for goodwill;
  - Section 2: Whether to modify the recognition of intangible assets in a business combination;
  - Section 3: Whether to add or change disclosures about goodwill and intangible assets; and
  - Section 4: Comparability and scope.
- **Several approaches to determining the goodwill amortisation period.**



## Next Steps

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# Next Steps

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- Discussion Paper expected to be published by February 2020
- Comment period for Discussion Paper of 180 days

## **Question for EFRAG Board**

Do EFRAG Board have any comment on the project update?



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