

Goodwill and Impairment

Accounting Standards Advisory Forum meeting
ASAF Agenda Paper 4
December 2021

Background

- The Board published the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* in 2020.
- In 2021 the Board has been discussing feedback on the Discussion Paper.

Purpose of this session

- To provide ASAF members with an update on the Board's recent discussions.
- Obtain feedback from ASAF members on staff examples illustrating the information staff expect an entity would disclose applying the Board's preliminary views.


Agenda

Agenda ref 4

Background (slides 4–6)

Staff examples (slides 7–11)

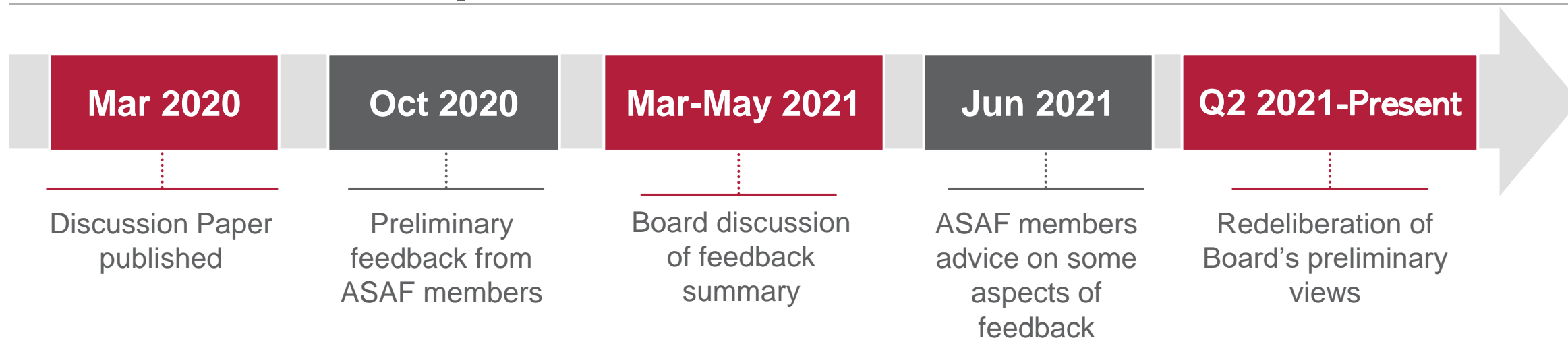
Questions for ASAF members (slides 12–14)

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. Additionally, there are dotted lines forming a grid-like pattern across the map, suggesting latitude and longitude.

Background and project update

Goodwill and Impairment

Agenda ref 4



Preliminary views



Objective

- Improve information companies provide about their acquisitions

- 1**
 - Disclose management's objectives for acquisitions and subsequently disclose the performance against those objectives
 - Some targeted improvements to existing standards
- 2**
 - Retain impairment-only model for goodwill
 - Simplify impairment test
- 3**
 - Present amount of total equity excluding goodwill
 - Do not change recognition of intangibles separately from goodwill

Tentative decisions by the Board

Agenda ref 4

June 2021

- The Board tentatively decided to retain the objective of the project unchanged from that described in the Discussion Paper. The objective is to explore whether entities can, at a reasonable cost, provide users with more useful information about the acquisitions those entities make.
- The Board also tentatively decided to make no changes to the project scope. The Board views its preliminary views as a package that meets the project objective.

September
2021

- The Board decided on a project plan. As part of that project plan the Board is prioritising analysis of feedback on:
 - disclosures about business combinations; and
 - whether to retain the impairment-only model or whether to reintroduce amortisation for goodwill (the subsequent accounting for goodwill).

October
2021

- The Board tentatively decided that, based on the *Conceptual Framework for Financial Reporting*, information can be required in financial statements about the benefits an entity's management expects from a business combination and the extent to which management's objectives are being met.
- The Board will continue its redeliberations on its preliminary views on the package of disclosure requirements at future meetings, including whether not to proceed with some or all of the disclosure requirements for practical reasons.

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Staff examples

We (the staff) developed examples (see Agenda Paper 4A) illustrating the Board's preliminary view that an entity should disclose:

- as at the acquisition date:
 - management's objectives for an acquisition;
 - the metrics management will use to monitor whether the objectives of the acquisition are being met; and
 - quantitative information about expected synergies arising from a business combination in the period of acquisition; and
- in the period of acquisition and subsequently:
 - the extent to which management's objectives for the acquisition are being met, using those metrics.

- Feedback, including from preparers, highlighted practical concerns in providing the information, including that the information could be:
 - forward-looking;
 - commercially sensitive;
 - difficult to audit; or
 - difficult to provide upon integration of the acquired business.
- However, other respondents, including users, said that the information that would be required applying the Board’s preliminary view is possible to provide and that it would be useful—for example, that the information would not be commercially sensitive.
- The purpose of these examples is to help explore whether feedback from respondents to the Discussion Paper differs because of different expectations. For example, to understand whether the level of detail entities would disclose applying the preliminary views (as illustrated in the staff examples) could be commercially sensitive and if so, why.

The staff examples in Agenda Paper 4A to this meeting illustrate our understanding of:

- possible disclosures entities might make in applying the Board's preliminary views described on slide 8; and
- the type of information, and the level of detail, that could be provided given certain facts and circumstances. Actual disclosures made by entities would necessarily be acquisition-specific and therefore could differ from that illustrated in the Staff Examples. For context, the examples include some, but not all, disclosures entities are required to make applying existing disclosure requirements in IFRS 3.

The staff examples (cont.)

The staff examples in Agenda Paper 4A to this meeting:

- are not based on any particular transaction. The examples were developed using information obtained during fieldwork on the Board's preliminary views and information about business combinations disclosed by entities in publicly available documents.

Each example includes:

- a background section illustrating the information available to the entity's Chief Operating Decision Maker (CODM); and
- disclosures in the entity's financial statements applying the Board's preliminary views.



Questions for ASAF members

Question 1

- The disclosure section of the staff examples does not include all details in the background section. Based on outreach with stakeholders in your jurisdiction, does the aggregation of information in the disclosures section of the staff examples, compared to the background section, achieve the right balance between providing useful information to users of financial statements while not disclosing information that is overly commercially sensitivity?

Question 2

- Based on legislation and regulations in your jurisdiction, is there any information in the disclosure section that would result in significant additional litigation risk if disclosed in financial statements and why?
 - For example, would any of the information be considered forward-looking in your jurisdiction and therefore not benefit from ‘safe harbour’ protections (that is, protection from litigation) that might be available to forward-looking information disclosed outside financial statements?

Question 3

- Do you have any other comments or observations regarding the staff examples?

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