



# Goodwill and Impairment

## Project summary

Based on the post-implementation review of IFRS 3 *Business Combinations*, the IASB is exploring possible improvements to disclosures about acquisitions and possible simplifications to the accounting for goodwill and improvements to the impairment test.

The objective of this project is to improve the information companies provide to investors, at a reasonable cost, about the acquisitions those companies make and about goodwill. Better information should help investors more effectively hold a company's management to account for its acquisition decisions.

The AASB and IASB issued a [discussion paper](#) in March 2020 which considers:

- how to improve the disclosures provided to investors about acquisitions and their subsequent performance;
- whether impairment testing can be done more effectively;
- whether the amortisation of goodwill should be reintroduced;
- whether total equity should be presented excluding goodwill;
- how to reduce the cost and complexity of performing the impairment test;
- how to simplify the requirements for estimating value in use; and
- whether the range of identifiable intangible assets recognised separately from goodwill in an acquisition should be expanded.

Comments on the discussion paper were due to the AASB by 2 October 2020 (revised date), and to the IASB by 31 December 2021.

The current view of the IASB is consistent with the findings in [AASB Research Report No. 9 Perspectives on IAS 36: A Case for Standard Setting Activity: Summary of Outreach Results](#) published in March 2019.

The IASB is expected to begin discussing feedback received on the Discussion Paper in 2021.

## Project contacts

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Project priority:  
Medium

## Issued Documents

- [AASB Discussion Paper \*Business Combinations—Disclosures, Goodwill and Impairment\*](#)
- [AASB Research Report No. 9 \*Perspectives on IAS 36: A Case for Standard Setting Activity: Summary of Outreach Results\*](#)

## AASB Outreach

- Outreach conducted in June 2018 (Phase 1 outreach)
- Outreach conducted in January 2019 (Phase 2 Outreach)
- Outreach conducted in July and August 2020 (Phase 3 outreach)

## Project status

- Obtaining feedback on proposals in the Discussion Paper

## Board deliberations

- AASB Action Alert Update and Board Papers

## Other

- [Link to IASB project page](#)

## AASB Communications

- [Submission to the IASB](#)

The staff of the AASB have prepared this summary for information purposes only. The Board decisions described are tentative and do not change current accounting pronouncements unless otherwise indicated. Official positions of the AASB are determined only after extensive due process and deliberations. While this summary is regularly updated, it does not provide a comprehensive review or statement of events and should not be treated as such.

## Latest project news

Date	News
11 December 2020	<a href="#">Submission to IASB - DP Business Combinations and Goodwill - Business Combinations — Disclosures, Goodwill and Impairment - December 2020</a>
13 November 2020	<a href="#">November 2020 Action Alert</a>
21 September 2020	<a href="#">September 2020 Action Alert</a>
26 March 2020	<a href="#">News Alert</a>
21 February 2019	<a href="#">February 2019 Action Alert</a>
14 June 2018	<a href="#">June 2018 Action Alert</a>

## AASB Action Alert Update, Minutes and Board Papers

Meeting Date	Update
November 2020	<p>The Board decided to provide the following feedback on the IASB’s Discussion Paper DP/2020/1 Business Combinations—Disclosures, Goodwill and Impairment:</p> <ul style="list-style-type: none"><li>• Board members have mixed views on whether to retain the impairment-only approach. While the amortisation of goodwill is preferred by some preparers and auditors as a practical expedient that would reduce costs and remove some of the judgement associated with the impairment test, the impairment-only approach may be favoured by users in providing information about the success of business combinations and avoiding arbitrary amortisation expenses. However, the Board also noted that an impairment test would be required under both the impairment-only and amortisation approaches. To address concerns about the appropriate application of the impairment test, the Board will suggest that the IASB develop a template or illustrative example to assist entities to understand and apply the principles of the value-in-use (ViU) model in IAS 36 Impairment of Assets.</li><li>• In addition, the Board:<ul style="list-style-type: none"><li>○ does not support the requirement to disclose in the financial statements information about the subsequent performance of acquisitions, including the metrics used by the chief operating decision maker to monitor those acquisitions, but questions whether this should be dealt with in the IASB’s project to revise the Management Commentary Practice Statement;</li><li>○ acknowledges concerns raised by stakeholders about the quantification and auditability of the proposed subsequent performance and expected synergy disclosures and will suggest that the IASB discuss the auditability of the proposed disclosures with the International Auditing and Assurance Standards Board;</li><li>○ supports the IASB’s proposal to retain the existing pro-forma revenue and profit disclosures, but does not support the introduction of new pro-forma cash-flow disclosures;</li><li>○ does not support the IASB’s proposal to remove the annual impairment test requirement, given concerns from users about the loss of information in the financial statements and limited evidence of cost savings;</li></ul></li></ul>

## AASB Action Alert Update, Minutes and Board Papers

Meeting Date	Update
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- supports the proposed simplifications of the ViU model but recommends the IASB provides implementation guidance and explains the differences between the ViU model and the fair value model where fair value is calculated using discounted cash flows; and
- does not support allowing the reversal of previously recognised goodwill impairments.

A subcommittee of the Board will finalise the submission out of session.

6.1 Staff Paper: Consider Feedback on the Discussion Paper and decide on issues for submission to IASB

6.2 Working draft submission to IASB: Discussion Paper Business Combinations-Disclosures, Goodwill and Impairment

6.3 Comment Letters received: Discussion Paper Business Combinations-Disclosures, Goodwill and Impairment (combined)

### September 2020

The Board made preliminary decisions to provide the following feedback on the IASB's Discussion Paper DP/2020/1 Business Combinations—Disclosures, Goodwill and Impairment:

- express general support for retaining the impairment-only approach to accounting for goodwill, subject to the impairment test being improved and further guidance being provided. In particular, the Board noted that goodwill is not always allocated to the lowest level at which it is being monitored and therefore not tested for impairment at the appropriate level, often due to difficulties in understanding and applying the requirements of IAS 36 *Impairment of Assets*;
- not support the requirement to disclose information about the subsequent performance of acquisitions, including the metrics used by the chief operating decision maker (CODM) to monitor those acquisitions. While noting that the disclosures are responding to a need for further information expressed by investors, the Board questioned whether this type of information would be required to meet the objectives of financial statements as proposed in the IASB's Exposure Draft *General Presentation and Disclosures* or whether this would be more appropriately dealt with in the IASB's project to revise the Management Commentary Practice Statement. The Board also noted that no similar information is required for internally developed intangible assets and raised concerns about the auditability of the information;
- in relation to the proposed simplifications to the annual impairment test, recommend:
  - requiring disclosure if the impairment test has not been performed and the reason why, if the requirement to test goodwill for impairment annually is removed;
  - reconsidering the list of impairment indicators in IAS 36, with a greater focus on internal indicators and emphasising that it is not an exhaustive list;
  - providing additional implementation guidance to ensure consistency in determining post-tax cash flows if the use of either pre- or post-tax discount rates is permitted when performing a value in use calculation; and
  - developing robust guidance about when it is appropriate for an entity to include cash flows from uncommitted future restructurings and asset enhancements; and

## AASB Action Alert Update, Minutes and Board Papers

Meeting Date	Update
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- not support a requirement to present total equity excluding goodwill on the statement of financial position.

The Board intends to finalise its comments to the IASB at its November 2020 meeting, after considering any further feedback from Australian stakeholders in response to the Discussion Paper, which is open for comment to the AASB until 2 October 2020.

4.1 Staff Paper: Consider Feedback on Discussion Paper and decide on issues for submission to IASB

### February 2019

The Board discussed issues arising from research considering analysts' perspectives on impairment and methods that they adopt to identify impairment on a timely basis as well as additional financial statement disclosures that could be useful to users.

The Board decided to make recommendations to the IASB in relation to the following:

- (a) clarifying the purpose of the impairment test;
- (b) conducting further research on developing a modified single model approach, rather than permitting either the Value in Use or the Fair Value less Costs of Disposal models;
- (c) exploring aligning impairment testing with the level at which an entity's results are viewed and decisions are made internally (ie reconsidering the need for cash-generating units as the aggregation level); and
- (d) enhanced disclosure requirements for acquisitions and impairments.

The Board also decided to publish the research.

9.0 Cover Memo: Goodwill and Impairment (Research paper by Deloitte)

9.1 Working Draft Research Report No. X "Could accounting standard setters look to market analysts for improved impairment guidance?"

### June 2018

Based on outreach feedback the Board considered possible narrow-scope amendments to IAS 36 *Impairment of Assets* that might be raised with the IASB, pending further research, such as:

- (a) a single, discounted cash flow methodology for both value in use (VIU) and fair value less costs of disposal (FVLCD), including cash flows from future restructuring and enhancements, but with management assumptions for VIU and market-participant assumptions for FVLCD; and
- (b) disclosure of the post-tax discount rate rather than the pre-tax discount rate.

The Board also requested further research into recognising goodwill impairment on a more timely basis, considering feedback from analysts and investors in relation to the methods they adopt and the level at which goodwill is allocated for impairment testing purposes. Additional disclosure requirements for the method used to determine VIU or FVLCD should also be considered, such as a sensitivity analysis for all impairment tests and look-back analysis to assess forecasting accuracy

## AASB Action Alert Update, Minutes and Board Papers

Meeting Date	Update
8.1	<u>Staff paper – Goodwill and Impairment: Feedback from preparers and analysts</u>
8.2	<u>For noting – April 2018 ASAF paper on Goodwill and Impairment</u>