Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Goodwill and Impairment**	**Meeting:**	M177
Topic:	**Consider Feedback on the Discussion Paper and decide on issues for submission to IASB**	**Agenda Item:**	4.1
		Date:	2 September 2020
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		Decision-Making:	Medium
		Project Status:	Discussion Paper Outreach

OBJECTIVE OF THIS PAPER

1 The objective of this agenda item is:

(a) to **inform** the Board of the feedback received in outreach performed to date in relation to AASB Discussion Paper *Business Combinations–Disclosures, Goodwill and Impairment* and provide staff analyses of key issues;

(b) for the Board to **provide feedback** on the preliminary staff recommendations, where appropriate, on what feedback to provide to the IASB; and

(c) for the Board to **agree** on the general approach to developing a comment letter to the IASB.

ATTACHMENTS

Agenda Paper 4.2	IASB Webinar Slides (August 2020) – Summary of proposals [SUPPORTING DOCUMENTS FOLDER]
Agenda Paper 4.3	AASB Discussion Paper *Business Combinations–Disclosures, Goodwill and Impairment* [SUPPORTING DOCUMENTS FOLDER]
Agenda Paper 4.4	Minutes of AASB UAC Meeting (July 2020) [SUPPORTING DOCUMENTS FOLDER, BOARD ONLY]
Agenda Paper 4.5	Minutes of AASB Business Combinations/Equity Method Project Advisory Panel Meeting (July 2020) [SUPPORTING DOCUMENTS FOLDER, BOARD ONLY]
Agenda Paper 4.6	AASB Research Report 9 *Perspectives on IAS 36: A case for Standard-Setting* (March 2019) [SUPPORTING DOCUMENTS FOLDER, BOARD ONLY]

STRUCTURE

2 This Staff Paper is set out as follows:

(e) SUMMARY OF RECOMMENDATIONS AND QUESTIONS TO THE BOARD; and

(f) INITIAL SUMMARY OF KEY ISSUES IDENTIFIED BY STAFF.

BACKGROUND

3 The IASB issued Discussion Paper DP/2020/1 *Business Combinations–Disclosures, Goodwill and Impairment* in March 2020. The AASB re-issued AASB Discussion Paper *Business Combinations–Disclosures, Goodwill and Impairment* domestically in March 2020.

4 The objective of the Discussion Paper is to explore whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make. Better information should help investors assess the performance of companies that have made acquisitions and hold a company's management to account for acquisition decisions.

5 Initially, comments on the Discussion Paper were due to the IASB by 15 September 2020. However, due to the COVID-19 pandemic, the IASB extended the comment period to 31 December 2020.

6 Staff have not provided a summary of the proposals or any education on the Discussion Paper. However, for Board members that are not aware of the key proposals, Staff have attached:

(a) the slide pack used (see Agenda Paper 4.2 in the supporting materials folder) for the IASB's webinars hosted by AASB staff. They provide a useful overview of the key proposals in the Discussion Paper; and

(b) the full Discussion Paper.

OUTREACH HELD TO DATE

7 To date, Staff have held the following outreach on the Discussion Paper:

Category	**Minutes/Supporting Papers/Recordings**	**Date**
User Advisory Committee (UAC)	Agenda Paper 4.4 – supporting documents folder	16 July 2020
Project Advisory Panel (PAP)	Agenda Paper 4.5 – supporting documents folder	27 July 2020
Webinar 1 – Joint with IASB	Link to recording[1]	11 August 2020
Webinar 2 – Joint with IASB	N/A[2]	13 August 2020

8 Feedback from each of the outreach events has been summarised and categorised in this paper. As such, it is not necessary for Board members to read the individual summaries of the outreach.

9 Overall, stakeholders have appeared to be supportive of the overall objectives. Feedback has generally focussed on particular proposals or preliminary views outlined in the Discussion Paper.

10 At this stage staff do not propose to undertake any further general outreach events on the Discussion Paper. However, given the Australian comment period remains open until 2 October (revised date), staff may identify a need to undertake further targeted outreach based on the comment letters received (including further targeted outreach noted in this paper).

1 Staff has not prepared a summary of the discussion held during the Webinars as most questions raised by attendees were confirming the proposals in the Discussion Paper rather than providing feedback.

2 This recording was not published as it contains the same presentation content as Webinar 1. Should Board members wish to view Webinar 2, a recording is available.

GENERAL APPRAOCH TO DRAFTING THE COMMENT LETTER

11 As a result of the COVID-19 outbreak, Staff have had to re-prioritise workloads to ensure that priorities are still being met and also to respond to the financial reporting questions arising from the outbreak. Staff have therefore considered whether or not resources should be diverted from this project.

12 With this in mind, staff recommend that the AASB's comment letter does not respond to all 14 questions asked in the Discussion Paper. The comment letter should instead focus on the key issues where feedback received from stakeholders did not align with the IASB's preliminary views. This approach will save time and resources, while still allowing the Board to give input to the IASB's project.

Question 1 to the Board: Do Board members agree with this approach? If not, what approach do Board members suggest? **The Board may wish to answer this question after considering the feedback received in this paper.**

NEXT STEPS

13 Staff will summarise and analyse comments received from stakeholders on the Discussion Paper once the comment period has closed.

14 Staff will undertake targeted outreach as noted in this paper.

15 Staff will bring a draft comment letter to the Board's November meeting for consideration and if appropriate approval.

SUMMARY OF RECOMMENDATIONS AND QUESTIONS TO THE BOARD

16 Based on feedback received to date, staff suggest recommending changes to the Discussion Paper on the following key issues:

Issue number and topic	Overview of preliminary staff recommendation	Question to the Board
Issue 2.1(a) Disclosure of information may not be consistent from period to period	Additional guidance on situations where it is reasonable to change the metrics used by the CODM to monitor acquisitions is required. For example, when an entity has undergone a major restructure, or when a metric is related to earnings due to an earnout agreement, at the point the earnout target is either met or missed. To ensure a minimum level of consistency in disclosures is retained, it may be reasonable to adopt an approach consistent with the approach in IFRS 8 *Operating Segments*. Staff will seek feedback from preparers to understand whether this approach would be possible at a reasonable cost before recommending whether or not this should be suggested to the IASB.	Question 2: Do Board members agree with the staff recommendation?
Issue 2.3(a) Disclosures might not provide information in addition to what is already being disclosed	The IASB do not require disclosure of pro-forma cash flow contributed by the acquired business. The IASB conduct further research to understand whether it is necessary to retain the existing requirements in IFRS 3.B64(q) or whether these disclosures could be replaced by the proposed subsequent performance disclosures.	Question 3: Do Board members agree with the staff recommendation?
Issue 4.1(b) If an impairment test is not conducted, this fact needs to be disclosed, including the reasons why	If the requirement for annual impairment testing is removed, adequate disclosures are required. For example, if an entity does not perform the impairment test (as there were no impairment indicators), it should disclose this fact and the reasons why.	Question 4: Do Board members agree with the staff recommendation?
Issue 4.2(a) Including cash flows from future planned restructures may be flawed and further delay the recognition of impairments	The IASB develop guidance about when it is reasonable and supportable to include cash flows from future restructurings and asset enhancements. As suggested in AASB Research Report 9, when an entity is assessing whether the inclusion of cash flows from future restructuring is reasonable, it could use some elements of the 'highly probable' guidance in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* paragraph 8. It may also be reasonable to expect that management will complete the restructure within a specific period, e.g., within the next 3-5 years .	Question 5: Do Board members agree with the staff recommendation?

Issue number and topic	Overview of preliminary staff recommendation	Question to the Board
	The requirements for the plan to restructure could also be similar to those in paragraph 72 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.	

17 Based on feedback received to date, staff do not suggest recommending changes to the Discussion Paper, however, suggest seeking or providing feedback on the following issues:

Issue	Overview of preliminary staff recommendation	Question to the Board
Issue 2.2(c) Auditability of synergy disclosures	The IASB discuss the auditability of the proposed disclosures with the IAASB.	Question 6: Do Board members agree with the staff recommendation?
Issue 4.1(a) Not performing an annual impairment test may reduce the robustness of the impairment model (when an impairment is required) and result in a loss of information to users	Staff suggest supporting the proposal to remove the requirement to test goodwill for impairment annually. However, suggest recommending that the IASB reconsider the list of impairment indicators in IAS 36 to limit the chances of management being overly optimistic and deferring or bypassing the impairment test. Staff will also seek additional feedback from Australian preparers about the cost savings when the impairment test is not performed annually and discuss this with the Board in November.	Question 7: Do Board members agree with the staff recommendation?
Issue 4.3(a) Loss of comparability due to variations in post-tax calculation methods	If the use of either pre- or post-tax discount rates is permitted, additional implementation guidance should be developed. This guidance should explain that: • if an entity intends to use post-tax discount rates, it will need to ensure the relevant cash flows are also determined on a post-tax basis and reflect the actual post-tax cash flows expected to be received from the asset; • estimating the post-tax cash flows may require detailed scheduling of the reversal of existing temporary differences; and • if an entity uses a post-tax discount rate and post-tax cash flows in calculating VIU, the resulting recoverable amount must be compared to the CGU, including any relevant deferred tax balances to assess whether there is any impairment.	Question 8: Do Board members agree with the staff recommendation?

Issue	Overview of preliminary staff recommendation	Question to the Board
Issue 4.4(a) The distinction between Value in Use (VIU) and Fair Value less Cost of Disposal (FVLCD) is unclear	Staff suggest seeking further feedback to clarify what specific additional guidance may be required on the differences between VIU and FVLCD.	Question 9: Do Board members agree with the staff recommendation?

18 Based on feedback received to date, staff do not suggest recommending changes to the Discussion Paper on the following issues:

Issue	Overview of preliminary staff recommendation	Question to the Board
Issue 2.1(b) The level at which acquisitions are monitored and disclosures are required	No amendments to the proposals in Discussion Paper are recommended.	Question 10: Do Board members agree with the staff recommendation?
Issue 2.1(c) Disclosing information about management's (CODM's) objectives may be commercially sensitive		
Issue 2.1(d) Disclosing information in subsequent periods where the acquiree is integrated may be difficult		
Issue 2.1(e) Disclosures about assets and liabilities acquired		
Issue 2.2(a) Commercial sensitivities and expected synergies		
Issue 2.2(b) Quantification of synergies		

Issue	Overview of preliminary staff recommendation	Question to the Board
Issue 3.1(a) Usefulness of impairment disclosures and amortisation information		

INITIAL SUMMARY OF KEY ISSUES IDENTIFIED BY STAFF

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
Section 2 of the Discussion Paper – Improving acquisition disclosures Investors told the IASB that entities typically do not provide enough information in their financial statements about how an acquisition performs in the years after the acquisition occurs. The proposed new disclosures are intended to help investors better assess: • management's ability to realise the expected benefits from an acquisition; • whether an acquisition's subsequent performance indicates that management paid a reasonable price for the acquired business; and • the effect of an acquisition on the business in the year of acquisition (i.e. the acquiree's contribution to the business).			
Issue 2.1 – Proposed disclosures about the subsequent performance information The Discussion Paper proposes that entities would need to disclose: • information about the strategic rationale and objectives for the acquisition at the date of the acquisition; and • the metrics management (chief operating decision maker (CODM)) use to monitor whether acquisition objectives are being met and how the acquisition is performing against those objectives for at least two full reporting periods after the acquisition (i.e. metrics is not prescribed).			
Feedback was broadly supportive. It was acknowledged that it is difficult to measure the success of an acquisition via a single (i.e. prescribed) method. This is because acquisition rationale varies by company, sector and business strategy. Therefore, having flexibility about what information should be disclosed is helpful.			

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
There was a concern, however, about the application of the 'management lens' to any disclosures. [UAC and PAP]. Staff have identified the following key issues:			
(a) <u>Disclosure of information may not be consistent from period to period</u> Users were concerned that disclosures based on what the CODM reviews may not be consistent from period to period. This may be the case where the CODM changes the metrics used. The consistency of information is important to users [UAC].	Yes – see paragraph 2.21 of the Discussion Paper which acknowledges that the metrics used to monitor acquisitions may change over time. The Discussion Paper concludes that it is unreasonable to require an entity to continue disclosing metrics they are no longer using. Where metrics change, the entity should disclose this fact and the reasons for the change to ensure poor performance is not masked.	Staff agree that disclosing information which the CODM no longer uses is inconsistent with the reasons why the IASB proposed the CODM approach (e.g. to reduce the burden on entities by disclosing information they already have internally). However, there is a risk that changes in the metrics may mask the poor performance of an acquisition that may not be addressed by disclosing the change and the reasons for the change. In staffs' view, this risk should be addressed.	Based on feedback received to date, staff recommend suggesting the IASB includes additional guidance on situations where it is reasonable to change the metrics. For example, in situations when an entity has undergone a major restructure, or when a metric is related to earnings due to an earnout agreement, at the point the earnout target is either met or missed. Staff also considered how to ensure that a minimum level of consistency in disclosures is retained. For example, it may be reasonable to adopt an approach consistent with the approach in IFRS 8 *Operating Segments* where, if an entity changes the structure of its internal organisation which affects the composition of reportable segments, prior period information is restated, or where prior period information is not restated, information on both the old and

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
			new basis is required for the period in which the change is made.[3] Staff will seek feedback from preparers to understand whether this approach would be possible at a reasonable cost before recommending whether or not this should be suggested to the IASB. **See Question 2 to the Board.**
(b) The level at which acquisitions are monitored and disclosures are required There were concerns that the acquisition level for which disclosures are proposed (i.e. the level that the CODM monitors) may be too high. As such, the disclosures may not be sufficiently granular to assess the performance of individual acquisitions where the CODM monitors them at, for example, the CGU/whole of segment level. In such scenarios, material information may not be disclosed [PAP].	Yes – see paragraphs 2.33-2.40. The intention of the CODM approach is to require disclosure of the most important information about the most important acquisitions. The IASB heard concerns that providing disclosures for all material acquisitions could be onerous (for example, where the entity undertakes significant acquisition activity). The CODM is expected to monitor performance of operating segments including performance of acquisitions. Therefore, the CODM	While the Discussion Paper proposes the CODM approach, the practical relationship between the CODM and management affects the level at which information is monitored. This is because how and indeed whether the CODM monitors the performance of acquisitions, including any goodwill acquired, determines the financial statement disclosures. However, in most cases, the proposed disclosures (at the proposed level) will elicit some information about acquisitions. For example, an entity	Based on feedback received to date, staff do not recommend suggesting any amendments to the proposals in Discussion Paper. **See Question 10 to the Board.**

[3]

IFRS 8.29: If an entity changes the structure of its internal organisation in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods, including interim periods, shall be restated unless the information is not available and the cost to develop it would be excessive. The determination of whether the information is not available and the cost to develop it would be excessive shall be made for each individual item of disclosure. Following a change in the composition of its reportable segments, an entity shall disclose whether it has restated the corresponding items of segment information for earlier periods.

IFRS 8.30: If an entity has changed the structure of its internal organisation in a manner that causes the composition of its reportable segments to change and if segment information for earlier periods, including interim periods, is not restated to reflect the change, the entity shall disclose in the year in which the change occurs segment information for the current period on both the old basis and the new basis of segmentation, unless the necessary information is not available and the cost to develop it would be excessive.

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
It was suggested that perhaps requiring disclosure of the information that 'management review (whoever management is, but a level lower than the CODM) may be more appropriate. It was, however, acknowledged that the volume of disclosures could be onerous in this case [PAP]. One PAP member mentioned that in practice, goodwill is not always allocated to the CGU/s that are expected to benefit from the acquisition (i.e. goodwill is not allocated at a sufficiently low level). Instead, goodwill might be allocated to the reportable segment. Feedback suggests this often occurs because the application of the requirements in AASB 136 *Impairment of Assets* (IAS 36) are difficult to understand and apply [PAP and webinar attendee].	approach was seen as a pragmatic solution which should help to minimise costs to preparers, as the information they are required to disclose is based on information the entity is already monitoring internally. In respect of inappropriate goodwill allocation, paragraph 3.75 of the Discussion Paper notes that if issues arise because of the application of the impairment test, these issues may be better addressed through enforcement (e.g. auditors and regulators) than through standard-setting activities. Paragraphs 4.55(d) and 4.56(d) also note that including additional guidance on identifying CGUs and the allocation goodwill was not pursued as it would be difficult to provide guidance that applied to all companies.	would disclose either acquisition specific metrics, integrated metrics if the acquiree has been integrated or why the acquisition isn't being monitored. If however an entity undertakes a <u>material</u> acquisition and the CODM doesn't get any separate information about the subsequent performance of the acquiree, this would also need to be disclosed, and this could be useful information in its own right (i.e. the CODM is not monitoring the performance of a material acquiree). If, however, the CODM doesn't monitor performance against metrics because the acquisition is not material, then it would be reasonable to conclude that no information about this acquisition is required.	
(c) <u>Disclosing information about management's (CODM's) objectives may be commercially sensitive</u> Feedback suggested that some entities may be concerned about disclosing information about their objectives and expectations of acquisitions. For example, due to competitors having access to information [UAC and PAP].	Yes – see paragraphs 2.27 and 2.28 of the Discussion Paper. The Discussion Paper explains that companies may be able to provide useful information in a way that limits the disclosure of commercially sensitive information. However, if concerns over commercial sensitivity remain, that is not a sufficient reason to prevent the	While commercial sensitivity could affect the disclosures, staff expect entities should be able to provide investors with the information they need without disclosing information that may be commercially sensitive.	Based on feedback received to date, staff do not recommend suggesting any amendments to the proposals in Discussion Paper. **<u>See Question 10 to the Board.</u>**

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
	disclosure of information required by investors.		
(d) ***<u>Disclosing information in subsequent periods where the acquiree is integrated may be difficult</u>*** Where an acquired business is integrated into an existing business either immediately after acquisition or shortly thereafter, it may be difficult for preparers to track the acquisition's performance separately. This may be particularly relevant where acquisitions are made to increase capacity; therefore, they are never expected to be monitored on a stand-alone basis [UAC]. Disclosing information in subsequent periods may also be problematic for entities that are 'serial acquirers'. In this case, acquisitions may be tracked on an integrated basis (e.g. via a whole of business budget). Feedback suggested that while there may be some information available because the entity is tracking 'something' about an acquisition, it may be quite judgemental, making the disclosures less helpful [PAP].	Yes – see paragraphs 2.23-2.26 and 2.41-2.44 of the Discussion Paper. The Discussion paper explains that if the acquired business is integrated, information about the subsequent performance of the acquisition may be based on the combined business. The IASB noted that with time the integration might progress, and at some point, the CODM may stop monitoring performance. Where this occurs within the two years following an acquisition, the entity should disclose this fact and the reasons why.	Even in cases where the acquired business is integrated into an existing business either soon after acquisition or over time, the proposed disclosures (at the combined business level) could still provide useful information. For example, the proposed disclosures could highlight unsuccessful acquisitions to management causing them to more carefully consider whether a write-down of overstated goodwill is required. Also, requiring management to be more transparent about acquisitions could strengthen the robustness of the goodwill impairment test and may also reduce or at least mitigate the risk of management over-optimism in performing the impairment test.	Based on feedback received to date, staff do not recommend suggesting any amendments to the proposals in Discussion Paper. **<u>See Question 10 to the Board.</u>**
(e) ***<u>Disclosures about assets and liabilities acquired</u>***	In part. Paragraph 2.69 of the Discussion Paper outlines the reasons why the IASB	AASB 3 (IFRS 3) already requires the separate disclosure of "amounts recognised as of the acquisition date for each major class of assets acquired and	Based on feedback received to date, staff do not recommend suggesting any

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
Feedback suggested that users are at times more interested in the accounting for assets and liabilities acquired, rather than the subsequent performance of an acquisition. For this reason, users would like more granularity about the assets and liabilities acquired. For example, not disclosing provisions and other liabilities (together), but instead disclosing provisions separately from other liabilities, and not just disclosing intangible assets, but the type of intangible assets acquired (subject to materiality) [UAC]. Users are also interested in provisions recognised at acquisition, against which expenses are recognised in subsequent periods [UAC].	propose requiring separate disclosure of financing and other defined benefit pension liabilities. The separate disclosure of other assets and liabilities (or requiring disclosure at a more granular level) is not contemplated.	liabilities assumed"[4] for each material business combination. Other Standards also require information about assets and liabilities acquired. For example, AASB 116 *Property, Plant and Equipment* (IAS 16) requires disclosure of assets acquired for each **class** of property, plant and equipment acquired and AASB 138 *Intangible Assets* (IAS 38) requires disclosure of assets acquired for each **class** of intangible.[5] However, as a class of assets is defined in AASB 136 as "a grouping of assets of similar nature and use in an entity's operations" the detailed information users are seeking may not always be provided (e.g. disclosure of the types of intangibles). Staff also expect the same definition of class is applied to liabilities by analogy. Staff acknowledge that additional information will always be useful, however suggesting that assets and liabilities be disclosed at a level other than 'classes' would be inconsistent with the principle used in many Standards. Any changes may also introduce inconsistencies between Standards.	amendments to the proposals in Discussion Paper. **See Question 10 to the Board.**

[4] Paragraph B64(i).

[5] Paragraph 73(e) of AASB 116 and paragraph 118(e)(i) of AASB 138.

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
Issue 2.2 – Other targeted improvements – disclosure of information about synergies at the date of acquisition Where material, the Discussion Paper proposes requiring disclosure of information about the synergies expected from the acquisition, including when they are expected to be realised, the estimated amount or range of amounts of the synergies and the expected cost or range of costs to achieve those synergies. This information is disclosed at the date of acquisition. The objective of this disclosure is to provide information about the nature, timing and amount of expected synergies that would allow investors to better understand the benefits management expected when agreeing on the acquisition price.			
Views on the disclosure of synergies were mixed. It was acknowledged that providing specific disclosures on synergies may provide investors with more useful information about the expected benefits of an acquisition and the rationale for the transaction price, however quantification of synergies may be difficult and very judgemental. Staff has identified the following key issues:			
(a) <u>Commercial sensitivities and expected synergies</u> Similar with issue 2.1(c) above, feedback suggested that entities may be reluctant to disclose information about synergies (that is meaningful and useful in addition to the information they are currently providing as required by AASB 3 (IFRS 3)). This is because the disclosure of expected synergies could be considered commercially sensitive, providing	Yes – see paragraph 2.67 of the Discussion Paper which notes stakeholder concerns about the potentially commercially sensitive nature of the disclosures. However, as the proposals do not intend to require disclosure of detailed plans on how an entity intends to realise the synergies, the information disclosed is expected to have limited commercial sensitivity.	Consistent with issue 2.1(c), while commercial sensitivity could affect the disclosures (either the detail of information provided or the objectiveness), staff expect entities should be able to provide appropriate information. Theoretically, it would be useful to have information about whether expected synergies have been achieved post acquisition, as this could be an indicator	Based on feedback received to date, staff do not recommend suggesting any amendments to the proposals in Discussion Paper. The potentially commercially sensitive nature of disclosures was considered and rebutted by the IASB. Further, as information (not presently contemplated in the Discussion Paper) about whether or not expected acquisition date synergies were achieved

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
competitors for example with an insight into sensitive information [PAP]. Conversely, it was suggested by users that the absence of disclosures about expected synergies may not be detrimental, as the information may have limited usefulness due to it being vague or unclear or due to management applying their 'lens' [UAC]. It was also acknowledged that as synergy disclosures are made at the date of acquisition, unless synergies are one of the metrics the CODM monitors, there will be no disclosures in subsequent reporting periods about whether or not those synergies were achieved. Feedback suggested that even if there was subsequent reporting about whether or not synergies had been achieved, the information may be of limited use. This may be because financial statements are unlikely to disclose that expected synergies haven't been met, as it may reflect poorly on management. Alternatively, it may be because it is difficult to measure whether or not synergies have been achieved (e.g. cost savings were expected, but it is not possible to confirm whether the costs savings related directly to the acquisition and not to something else) [UAC].		for goodwill impairment amongst others. However, as users have indicated that this information has limited value, staff do not consider it necessary to address this issue further. Staff also note that disclosure would be required if the expected synergies are one of the metrics monitored by the CODM.	is expected to have limited usefulness based on UAC feedback, the cost to preparers is likely to outweigh any benefits. **See Question 10 to the Board.**

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
(b) <u>Quantification of synergies</u> Quantifying expected synergies may be difficult and extremely judgemental. These difficulties may also affect the CODM's ability to monitor their achievement [UAC and PAP]	Yes – see paragraph 2.66 of the Discussion Paper. The IASB expects that the CODM would have already made an estimate of expected synergies before agreeing the acquisition price.	Staff agree that the CODM should have assessed expected synergies prior to an acquisition as part of good governance. To minimise any costs to prepares, the Discussion Paper doesn't require a single point estimate, rather entities are able to disclose a range of expected synergies based on expectations at the time of the acquisition/when the acquisition price was being negotiated.	Based on feedback received to date, staff do not recommend suggesting any amendments to the proposals in Discussion Paper. **<u>See Question 10 to the Board.</u>**
(c) <u>Auditability of synergy disclosures</u> The auditability of disclosures on synergies was a concern. For example, confirming the reasonableness of 'projections' and estimates [UAC and PAP].	No	From discussions with AUASB staff, AASB staff understand that auditing synergy disclosures is possible, provided the 'framework' against which the disclosures are audited is sufficiently specific and detailed. Management needs to provide the auditor with sufficient evidence to support any disclosures. Therefore, if disclosure requirements are not sufficiently specific and detailed, for example, about the parameters for disclosing expected synergies, it will be more difficult for auditors to assess whether the numerical and narrative disclosures satisfy the requirements.	Based on feedback received to date, staff do not recommend suggesting any amendments to the proposals in Discussion Paper. Staff do however suggest recommending the IASB discuss the auditability of the proposed disclosures with the IAASB. **<u>See Question 6 to the Board.</u>**

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
Issue 2.3 – Other targeted improvements – disclosure of the acquiree's contribution to the business In response to feedback suggesting that IFRS 3 does not currently require enough disclosure to allow investors to fully understand how an acquisition affected an entity in the year of acquisition, the Discussion Paper proposes requiring an entity to disclose information such as the acquiree's contribution to cash flows from operations as if the acquisition had occurred at the beginning of the reporting period.			
(a) <u>Disclosures might not provide information in addition to what is already being disclosed</u> Feedback suggested that disclosure of the acquiree's contribution to the business (presently required by AASB 3.B64(q) (IFRS 3) in relation to revenue and profit or loss) may not be required if the additional disclosures on the subsequent performance of acquisitions are introduced [UAC]. Feedback suggested that the current disclosures regarding **profit** contribution are often not too useful as they can be quite arbitrary and judgemental. The disclosure of **revenue** contribution however can be useful, when it is disclosed, which is not always the case [UAC]. Requiring the existing disclosures and the new ones for cash flows will create additional compliance costs for preparers for potentially minimal benefit [UAC].	Paragraph 2.73 of the Discussion Paper considers the intention of the existing pro-forma information disclosures. Paragraph 2.74 of the Discussion Paper considers feedback received during and after the post-implementation review (PIR). Paragraph 2.81 of the Discussion Paper suggests that disclosure of cash flows will help investors who use cash flows for their analysis. Paragraphs 2.82-2.87 of the Discussion Paper consider alternatives to providing this pro-forma information.	While the disclosure of cash flows was intended to meet investor needs following PIR feedback, feedback from UAC members indicated they did not consider the current pro-forma information useful on balance as it is often not disclosed, or where it is disclosed it is arbitrary or inherently judgemental. UAC members also thought additional pro-forma disclosures about cash flows would only have limited benefit. For this reason, staff suggest there is merit in revisiting the current and proposed disclosure requirements.	Based on feedback received to date, staff recommend suggesting the IASB do not require disclosure of pro-forma cash flow contributed by the acquired business. Staff also suggest recommending the IASB conduct further research to understand whether it is necessary to retain the existing requirements in IFRS 3.B64(q)) or whether these disclosures could be replaced by the proposed subsequent performance disclosures. **<u>See Question 3 to the Board.</u>**

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
Section 3 of the Discussion Paper – Goodwill impairment and amortisation The Discussion Paper considered whether it is feasible to design a different impairment test for goodwill that addresses concerns about the impairment losses being recognised 'too little, too late'. Having concluded that the impairment test cannot be made significantly more effective at a reasonable cost, the IASB considered whether the amortisation of goodwill should be reintroduced (in conjunction with impairment testing).			
Issue 3.1 – Amortisation of goodwill Amortisation (in conjunction with impairment) may make the impairment test easier and less costly to apply, and it also provides a simple mechanism that targets the acquired goodwill directly. Ultimately the IASB decided by a narrow majority not to propose reintroducing amortisation of goodwill.			
Views on the amortisation of goodwill were mixed. Ultimately as the proposals in the Discussion Paper are to be considered as a package, feedback [PAP] suggested that 'final' views would depend on the outcome of other matters (e.g. additional guidance and rigour around the level at which impairment testing should be undertaken – see Issue 2.1(b) – may result in a preference to retain the impairment only approach.) Staff identified the following key issues:			
(a) Usefulness of impairment disclosures and amortisation information **Impairment losses are confirmatory** Feedback echoed the PIR feedback that the 'market' typically recognises impairment losses before they are recognised in financial statements, as the 'market' is usually, but not always	In part. Paragraphs 3.71 and 3.88(b) of the Discussion Paper acknowledge feedback that impairment losses may be viewed as confirmatory. Paragraphs 3.70-3.74 of the Discussion Paper also acknowledge that the	Consistent with feedback from users, staff agree that even if 'only' confirmatory, recognition of impairment losses when they occur provides useful information, particularly in the first few periods after an acquisition when the outcomes of an acquisition (i.e. its success or failure) are most interesting to users.	Based on feedback received to date, staff recommend supporting the IASB's decision to retain the impairment model. **See Question 10 to the Board.**

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
'running ahead'. Regardless of this, feedback suggested that the recognition of impairment losses and the associated disclosure are useful [UAC]. Feedback also acknowledged that financial statements are only lodged annually (or half yearly as the case may be); therefore, market announcements (for entities with continuous disclosure obligations) would alert users to potential impairments before the financial statements are issued [PAP]. Feedback suggested that it is difficult to recall a situation where there was an unexpected goodwill impairment recognised; however, there may be times where the magnitude of a loss is larger than expected [UAC]. **Amortisation charges may not be useful** However, feedback also suggested that if amortisation was reintroduced any amortisation charge would likely be 'added back' by analysts before their assessment of an entity's performance [UAC]. There was no benefit in amortising goodwill as assets stay with the business, therefore goodwill should remain on the balance sheet [UAC].	impairment only model may provide more useful information to users than amortisation. Paragraph 3.68 of the Discussion Paper suggests that any loss of disclosures relating to the goodwill impairment test due to moving to an amortisation approach may be offset by the proposed subsequent performance disclosures. Paragraph 3.83 of the Discussion Paper considers that reintroducing amortisation may not save significant costs. It also considers that the judgements in determining the useful life of goodwill may rely on the same estimates as those used for the existing cash flow forecasts. The IASB has not yet considered what disclosures would be necessary if amortisation of goodwill was reintroduced and how the amortisation period and useful life may be addressed.	Staff are concerned that if amortisation is reintroduced this useful information may be hidden, with impairment losses not being recognised due to 'routine' amortisation charges being recognised instead. Other useful information (e.g. model inputs and sensitivities) may also be lost from the financial statements if the amortisation model is reintroduced and this information is not otherwise required to be disclosed. As the provision of useful information is important, difficulties in reliably estimating the useful life of goodwill and how it is 'consumed' may mean that the amortisation approach results in arbitrary amortisation charges over arbitrary periods of time. If amortisation charges are arbitrary, this is unlikely to provide useful information to users. It may also be the case that the amortisation model actually increases costs to preparers as they would be required to estimate the useful life, calculate amortisation and make associated disclosures, as well as test for impairment (if impairment indicators exist).	

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
Some feedback also suggested that amortisation charges are likely to be arbitrary. Conversely, other feedback suggested that while there is judgement in determining the useful life of goodwill, there is also significant judgement in impairment testing [PAP]. Further, while amortisation would occur in conjunction with impairment testing there was also a concern that useful information (e.g. impairment test inputs) may be lost if no longer required to be disclosed [UAC and webinar attendee].			

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations

Section 4 of the Discussion Paper – Simplifying the impairment test

The Discussion Paper proposes simplifying the impairment test to make it less costly and less complex, while improving some aspects of the information it provides, by:

- providing relief from the requirement to perform a quantitative impairment test annually for goodwill, and extending this relief to intangible assets with indefinite useful lives and intangible assets not yet available for use;
- amending the requirements on estimating value in use by removing the restriction on including cash flows from future restructurings, improvements or enhancements; and
- allowing the use of post-tax cash flows and discount rates in estimating value in use.

Issue 4.1 – Removing the requirement to test goodwill for impairment annually where impairment indicators do not exist

This Discussion Paper proposes removing the requirement to test goodwill for impairment annually where there are no impairment indicators. This is intended to reduce cost and complexity for preparers.

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
Views on removing the requirement for an annual impairment test and adopting indicator approach were mixed. Staff has identified the following key issues:			
(a) <u>Not performing an annual impairment test may reduce the robustness of the impairment model (when an impairment is required) and result in a loss of information to users</u> **Reduced robustness and costs** One Board member supported the proposal to remove the mandatory annual impairment test and considered the indicator approach to be commercially sensible. As the objective of the impairment test is to look for overstatement, performing the test annually, where there are no indicators of impairment, may be an expensive exercise. Other feedback suggested that performing the impairment test annually leads to a more robust model and process. There was concern that if the impairment test is not performed annually, entities may not have adequate systems/processes in place to perform the impairment test if/when impairment indicators are identified.	Paragraphs 4.22 and 4.23 of the Discussion Paper note contrary views on the impact of the relief on the robustness of impairment test. Paragraph 4.24 of the Discussion Paper notes stakeholders' feedback that the annual impairment test is a good governance mechanism, as performing the test prompts management to assess the cash-generating processes within its business, promoting good stewardship. Paragraphs 4.14-4.21 of the Discussion Paper note that evidence of the extent of potential cost savings is mixed. Paragraph 4.24(b) of the Discussion Paper notes stakeholder's feedback that disclosures currently required by IAS 36 are useful, particularly information about the impairment tests assumptions and sensitivities, even where an impairment loss is not recognised. Paragraph 3.68 of the Discussion Paper suggests that any loss of disclosures relating to the goodwill	Staff acknowledge stakeholders' concerns about the potential reduced robustness of the impairment test process if an annual impairment test is not required. However, staff agree with the IASB view that it may be more commercially sensible for an entity to only perform a quantitative impairment test where there is a plausible indication that the CGU to which goodwill is allocated is overvalued (i.e. in the absence of an impairment indicator, an impairment test is not required). This is consistent with the recommendation in AASB Research Report 9 which suggested that the IASB needed to clarify the purpose of the impairment test and develop guidance explaining what the impairment test is (and is not) intended to achieve. As the objective of the impairment test is to ensure that a company's assets are carried at no more than their recoverable amounts,[6] the indicator	Based on feedback received to date, staff suggest supporting the proposal to remove the requirement to test goodwill for impairment annually. However, suggest recommending that the IASB reconsider the list of impairment indicators in IAS 36 to limit the chances of management being overly optimistic and deferring or bypassing the impairment test. Staff will seek additional feedback from Australian preparers about the cost savings when the impairment test is not performed annually and discuss this with the Board in November. <u>**See Question 7 to the Board.**</u>

6 Paragraph 3.13 of the Discussion Paper

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
Specifically, feedback suggested that smaller entities are more likely to take advantage of the relief and may not maintain internal impairment testing policies and processes [PAP]. In addition, the one-off costs required to re-establish an impairment testing system and model if/when indicators exist, and no impairment test has been performed for an extended period, could be higher than the cost of annual impairment testing required currently required by the Standard. Therefore, this relief may not necessarily achieve the intended cost savings [PAP]. Feedback also suggested the relief may be less relevant for larger entities who may continue to conduct an annual impairment test for internal/governance purposes regardless of it not being mandatory [PAP]. **Loss of information** Feedback also suggested that if the impairment test is not performed annually, the omission of disclosures currently required by AASB 136 (IAS 36) about the impairment test assumptions, even in the absence of an impairment loss, is a concern. Users find this information is more important in the long term [UAC]. While the proposed disclosures about the subsequent performance of an acquisition	impairment test due to moving to an amortisation approach may be offset by the proposed subsequent performance disclosures. Paragraph 4.33 of the Discussion Paper also notes that the IASB has mixed views on whether to retain the annual test requirement. Some of the IASB members consider it counterintuitive for the IASB to take any action that would make the test less robust. A narrow majority of the IASB members favour removing the requirement for an annual impairment test based on the consideration that the benefits of performing the impairment tests annually when there are no impairment indicators do not outweigh the costs.	approach proposed in the Discussion Paper appears to better align with the asymmetric nature of impairment testing. This is because impairment testing is intended to capture overstatements of value, but not cases of understatement or true to value. Staff note that even in moving to an indicator based approach, management would still be required to undertake a qualitative assessment of any impairment indicators to determine whether or not there is a trigger, requiring the entity to perform a quantitative impairment test. That is, management would still be required to consider and assess whether there may be an indication of impairment on an annual basis. Therefore, staff believe that even in adopting an indicator based approach, processes relating to the impairment assessment and considerations would be retained to a certain extent. To address stakeholder concerns about a loss of information if an impairment test is not conducted annually, staff have recommend in issue 4.1(b), that where an entity does not perform the impairment test (as there were no impairment indicators), it should disclose this fact and the reasons why.	

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
are expected to mitigate the possible loss of information, feedback suggested there was scepticism about the 'reliability' of the proposed disclosures due to the management 'lens' [UAC]. It was also noted that disclosures about acquisitions become less important over time (e.g. once two years from the date of acquisition has past and the subsequent performance disclosures may no longer be required) [UAC].		Staff is of the view that this disclosure would provide useful information to users explaining why an impairment test was not performed. Staff also acknowledge feedback that the disclosures currently required by AASB 136 (IAS 36) provide useful information, but note that the loss of information may not be fully compensated for by the proposed subsequent performance disclosures. However, when an entity is not required to perform an impairment test, it appears non-sensical to require disclosure of information about the assumptions and sensitivities underpinning the impairment test, as well as information about the effect of reasonably possible changes in a key assumption that could result in an impairment. It also defeats the purpose of the proposed relief. Staff have not been able to assess whether/how significant cost savings may be if an indicator approach was adopted. Staff have also not been able to determine how frequently entities may continue to perform the impairment test even if it is not mandatory. However, staff note that regardless, entities would incur some	

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
		costs when assessing the existence of impairment indicators. It may also be appropriate for the IASB to reconsider the list of impairment indicators in IAS 36 to limit the chances of management being overly optimistic and deferring or bypassing the impairment test.	
(b) <u>If an impairment test is not conducted, this fact needs to be disclosed, including the reasons why</u> Feedback was unanimous that where an entity does not perform an impairment test, the financial statements must disclose this fact and the reasons why (e.g. there were no impairment indicators, so no impairment test was required) [UAC and PAP]. This disclosure will be important for users and also auditors. A quantitative annual impairment test is not necessary for audit purposes; however, detailed disclosures in the financial statements which explain management's assessment of impairment indicators will be essential. As the role of the auditors is to provide assurance over the financial statements including the disclosures made by management, the 'framework' against which the disclosures	No – it is not clear whether any disclosures would be required if the impairment test is not performed.	Staff agree that appropriate disclosures regarding management's considerations, i.e. how management concluded that no impairment test was required, should be disclosed in the financial statements as it is considered important information for users and auditors. Consistent with **<u>Issue 2.2(c)</u>** staff understand that the 'framework' against which the disclosures are audited need to be sufficiently specific and detailed in order for auditors to be able to assess whether the numerical and narrative disclosures satisfy the requirements. The specificity of disclosures and availability of sufficient evidence will also be important.	Based on feedback received to date, staff suggest recommending to the IASB that if the requirement for annual impairment testing is removed, adequate disclosures are required. For example, if an entity does not perform the impairment test (as there were no impairment indicators), it should disclose this fact and the reasons why. **<u>See Question 4 to the Board.</u>**

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
are audited needs to be sufficiently specific and detailed. If disclosure requirements are not sufficiently specific and detailed, it will be more difficult for auditors to assess whether the numerical and narrative disclosures satisfy the requirements of the applicable framework and therefore whether they are reasonable. [PAP and AUASB staff].			
Issue 4.2 – Including cash flows from future uncommitted restructurings or from enhancing an asset performance in the Value in Use calculation (VIU) The Discussion Paper proposes removing the restriction in IAS 36 to exclude cash flows arising from a future restructuring to which a company is not yet committed or from improving or enhancing an asset's performance. This is expected to reduce cost and complexity and make the impairment test less prone to error and easier to understand, perform, audit and enforce.			
Broadly, feedback from UAC and PAP members suggested there are concerns about including cash flows from future uncommitted restructurings or from asset enhancement in the VIU calculation. Staff have identified the following key issue:			
(a) Including cash flows from future planned restructures may be flawed and further delay the recognition of impairments Feedback suggested that entities may include cash flows from restructurings that	Yes – paragraphs 4.40 and 4.41 of the Discussion Paper acknowledge that simply removing the restriction on these cash flows may lead to over-optimistic management estimates. Therefore, IASB considered the introduction of a	One of the key reasons for the concern that goodwill impairments are recognised too late, is management over-optimism when making estimates as part of the goodwill impairment test. Removing the restriction on including cash flows from future uncommitted	Based on feedback received to date, staff suggest recommending the IASB develop guidance about when it is reasonable and supportable to include cash flows from uncommitted future restructurings and asset enhancements.

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
may never occur or may continuously be delayed in VIU calculations. This could lead to overly optimistic cash flow forecasts and further delay in the recognition of impairment losses [PAP and UAC].	probability threshold or some qualitative disclosures. However, as IAS 36 already requires companies to use reasonable and supportable assumptions and disclose information about those assumptions too, the IASB do not consider this necessary. Paragraph 4.42 of the Discussion Paper notes that if management's estimates are too optimistic, this would be addressed more effectively by auditors or regulators than by requiring more discipline by preparers (e.g. thresholds and additional qualitative disclosures) than through standard-setting.	restructurings and asset enhancements may amplify management over-optimism, and consequently lead to even more untimely recognition of impairment losses. Staff are concerned that assessing whether cash flows from future restructurings or asset enhancements are reasonable and supportable could be difficult. It may not be possible, for example, to compare those expected cash flows to the past cash flow projections the same way it is done for other types of cash flows in VIU calculations as required by IASB 36.34). As judgement will be required, specific guidance in assessing cash flows from uncommitted future restructurings or asset enhancement is needed to enable a robust impairment test. AASB Research Report 9 summarises analyst concerns that the cash flow impact from restructuring can be unrealistically positive. Therefore, a conservative approach may be required to assess whether including the cash	As suggested in AASB Research Report 9, when an entity is assessing whether the inclusion of cash flows from future restructuring is reasonable, it could use some elements of the 'highly probable' guidance in IFRS *5 Non-current Assets Held for Sale and Discontinued Operations* paragraph 8 (e.g. management should have a plan to restructure and be actively thinking about how they will do it). It may also be reasonable to expect that management will complete the restructure within a specific period, e.g., within the next 3-5 years.[7] The requirements for the plan to restructure could also be similar to those in paragraph 72 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (e.g. entities will need to identify the key parameters of the plan, such as the business or part of a business that will be impacted, the locations affected, potential impact on employees, the likely expenditures that will be undertaken and a timeline for the implementation plan). **See Question 5 to the Board.**

[7] In IFRS 5 to classify a non-current asset as held for sale, the asset must be available for immediate sale and the sale must be highly probable. For a sale to be highly probable the appropriate level of management must be committed to a plan to sell the asset, have initiated an active program to locate a buyer, must be actively marketing the sale and the sale should be expected to be settled within one year. Staff acknowledge that the "committed to a plan to sell the asset" requirement in IFRS 5, which is very similar to the current requirement of commitment in IAS 36, might be too high a threshold for the reasonable and supportable assessment of future restructuring. Staff also acknowledge that the "within one year" requirement in IFRS 5 may also be too soon, and 3-5 years is the general investment holding period as suggested by analysts in AASB Research Report 9.

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
		flows from uncommitted future restructuring is reasonable. AASB Research Report 9 also suggested that in practice, positive cash flows attributable to restructurings are only considered by analysts when they have been proven in practice, rather than when they are announced. All respondents (to AASB Research Report 9) agreed that removing the restriction on these cash flows would require strict safeguards. AASB Research Report 9 recommended removing the existing restrictions and replacing them with guidance on when it would be reasonable to include such cash flows in an impairment model.	
Issue 4.3 – Using post-tax cash flows and discount rates in estimating VIU The Discussion Paper proposes removing the explicit requirement to use pre-tax cash flows and discount rates in estimating VIU. This is expected to make the test easier to complete and understand.			
Feedback about using a post-tax discount rate and cash flows was broadly supported. However, some concerns were identified: ***(a)*** ***Loss of comparability due to variations in post-tax calculation methods*** It was suggested that further guidance about calculating post-tax cash flows at a post-tax discount rate may be needed,	Yes – see paragraphs 4.49-4.52 of the Discussion Paper, which acknowledge that some stakeholders may have questions about how to avoid double counting future tax consequences when estimating post-tax cash flows. In	While conceptually, discounting post-tax cash flows at a post-tax discount rate and discounting pre-tax cash flows at a pre-tax discount rate should give the same result, in practice, this will only be	Based on the feedback received to date, staff support the proposal in the Discussion Paper; however, suggest recommending that if the use of either pre- or post-tax discount rates is permitted, additional implementation

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
because in practice, entities may have different methods of calculating post-tax cash flows with post-tax discount rates. Therefore, guidance is needed to facilitate consistent practice and comparability [PAP].	particular, post-tax cash flows need to exclude the effect of future tax cash flows resulting from the reversal of deferred tax liabilities or assets. The IASB notes in paragraph 4.52 that such guidance was not considered necessary when a similar change was made to IAS 41 *Agriculture* and therefore they intend to adopt similar approach with this proposed change.	the case if there are no temporary differences. If the entity is using a post-tax discount rate and post-tax cash flows, it will need to consider the reversal of temporary differences (and the timing thereof). Detailed scheduling of the reversal of timing differences may not always be practicable, and entities may, therefore, use alternative methods to estimate post-tax cash flows. Guidance is needed to help entities assess whether, and under what circumstances, such methods are acceptable.	guidance should be developed. This guidance should explain that: • if an entity intends to use post-tax discount rates, it will need to ensure the relevant cash flows are also determined on a post-tax basis and reflect the actual post-tax cash flows expected to be received from the asset; • estimating the post-tax cash flows may require detailed scheduling of the reversal of existing temporary differences; and • if an entity uses a post-tax discount rate and post-tax cash flows in calculating VIU, the resulting recoverable amount must be compared to the CGU, including any relevant deferred tax balances to assess whether there is any impairment. **See Question 8 to the Board.**
Issue 4.4 – VIU vs FVLCD IAS 36 allows entities to determine a CGUs carrying amount by estimating either its VIU or FVLCD. This Discussion Paper does not propose removing this option.			
Some concerns were raised about the distinction between VIU and FVLCD, if the VIU simplifications are pursued.			

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
(a) <u>The distinction between Value in Use and Fair Value less Cost of Disposal (FVLCD) is unclear</u> There was some concern that simplifying the VIU calculation may blur the distinction between VIU and FVLCD. Feedback suggested it was unclear if the distinctions are removed (e.g. including cash flows from future uncommitted restructurings), whether in practice there would be much difference (except for disposal costs) between both impairment models, especially as the assumptions made by market participants and management may be similar [PAP]. It was suggested that it is necessary to clearly articulate how the two models are different if both models are using estimated cash flows as the basis [PAP]. The suitability of a single test approach, allowing only one of VIU or FVLCD for estimating the recoverable amount, was also raised as it may further simplify the	Yes. Paragraph 4.55(a) of the Discussion Paper considered whether to provide guidance on the difference between entity-specific inputs in VIU and market-participant inputs in FVLCD. Paragraph 4.56(a) of the Discussion Paper concluded that the current guidance in IAS 36 and IFRS 13 is sufficient. Paragraphs 4.55(b) and 4.56(b) of the Discussion Paper note the reasons why both VIU and FVLCD remain valid options (e.g., if an entity can generate greater cash flows by using an asset, determining the recoverable amount based on FVLCTD would be misleading and vice versa). Paragraphs 6.14-6.16 of the Discussion Paper also acknowledge the recommendations made in AASB Research Report 9, which are similar in nature (i.e. developing a modified single model approach and reserve FVLCD for assets expected to be disposed).[8]	Prima facie, staff agree with the IASB's view that the guidance in IAS 36 and IFRS 13 *Fair Value Measurement* on the differences between VIU and FVLCD appears sufficient.[9] However, staff will seek further feedback to clarify what additional guidance is specifically required. AASB Research Report 9 recommended, based on stakeholders' feedback, developing a modified single model approach that reserves the use of a FVLCD-type model for assets expected to be disposed of within the following financial reporting period.[10] The recommendation was made based on the assumption that the VIU approach should more closely reflect management's intentions for the use of the asset over the forecast period and therefore is expected to align as much as possible with management's budgets.	Based on feedback received to date, staff do not recommend suggesting any amendments to the proposals in Discussion Paper. In drafting the Discussion Paper, the IASB has considered the recommendations from AASB Research Report 9 and concluded that both VIU and FVLCD remain valid options. Staff agree with this conclusion. However, staff suggest seeking further feedback to clarify what specific additional guidance may be required on the differences between VIU and FVLCD. **<u>See Question 9 to the Board.</u>**

8 AASB Research Report 9 suggests that FVLCD is typically used within industries where commodity prices are relevant, as there is better external information than other industries where prices are forecast out into the future. These entities also have the ability to switch assets on or off depending on the temperature of the market, which is permitted within a FVLCD model but not when a VIU approach is used.

9 The Discussion Paper refers to paragraphs 30, 53A and Appendix A of IAS 36, as well as paragraph BC60 of the Basis for Conclusions of IAS 36. It also refers to paragraphs 3, 11, 12, 16, 22, 23 and B2 of IFRS 13.

10 Other recommended amendments including remove the existing restrictions on VIU regarding future restructurings and asset enhancement; allowing the use of a post-tax discount rate; specifically permitting the use of market-based assumptions within the cash flow model such as a forward curve for commodity prices and foreign exchange rates.

Key issue	Has this issue been considered by the IASB? If yes, where.	Whether/why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
impairment testing process [Board Member].		The proposed amendments to the VIU model (i.e. removing restrictions on future restructurings and asset enhancements and allowing post-tax discount rate) are intended to make the estimation of VIU less complex and time consuming. For some entities, FVLCTD model might be more readily accessible, such as those in industries where commodity prices are in play. However, for other entities VIU is expected to be a more appropriate basis as it expects to generate cash flows through the use of the asset.	