



Project:	Goodwill and impairment	Meeting	M169 - February 2019
Topic:	Feedback from Phase 2 outreach on improving impairment testing	Agenda Item:	9.0
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		Decision-Making:	Low
		Project Status:	Draft Research Report

Introduction and objective

- 1 The objective of this paper is to decide on the recommendations to the IASB based on the findings in the Working Draft Research Report No. X “*Could accounting standard setters look to market analysts for improved impairment guidance?*” (Agenda paper 9.1).

Reasons for bringing this paper to the Board

- 2 The IASB has finalised its discussion on the objectives for the next stage of its Goodwill and Impairment research project¹ and has directed the staff to perform additional work to explore possible improvements to disclosures about acquisitions and possible simplifications to the accounting for goodwill and targeted improvements to the impairment test. As part of the IASB October 2018 meeting, the IASB reviewed a draft outline of a Discussion Paper and provided feedback for the staff to consider. The final discussion paper is due to be released in the second half of 2019.
- 3 The Board previously considered the [results of first round of research and outreach conducted in relation to this project in June 2018](#) (Phase 1). In response to that paper the Board directed Staff to conduct further research into methods that would result in 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 (Phase 2 of AASB Staff research). The Board also wanted Phase 2 work to address potential additional

¹ <https://www.ifrs.org/projects/work-plan/goodwill-and-impairment/#current-stage>

disclosure such as a sensitivity analysis for all impairment tests and greater clarity on key assumptions.

- 4 In response to this request, Staff are presenting a first working draft of Research Report No. X *Could accounting standard setters look to market analysts for improved impairment guidance?*, which outlines additional feedback received as part of Phase 2 outreach conducted in January 2019. Staff note that findings from the AASB Staff research might not be incorporated in the IASB's forthcoming Discussion Paper. However, in the event that the findings from the AASB Research Report is not incorporated, it can be submitted as a component of the AASB's response to the discussion paper.

Attachments

Agenda Paper 9.1 [Working Draft] Research report No. X: *Could accounting standard setters look to market analysts for improved impairment guidance?*

Overview of agenda papers

- 5 Agenda paper 9.1 is an early working draft of a Research Report to present summary/findings of the outreach and research conducted in Phase 1 and Phase 2 with recommendations to the IASB based on the findings. Since, the board has considered the feedback received in Phase 1 outreach of this project, we would like to bring Board's attention to Paragraphs 68 – 124 of the Agenda Paper 9.1 which outlines findings/summary of feedback received as part of outreach conducted in Phase 2 and paragraphs 41-44 of Agenda paper 9.1 which have draft recommendations to the IASB (also reproduced below).
- 6 Phase 2 of this project focused on four broad topics:
 - (a) What is the perceived purpose of impairment testing?
 - (b) How should the impairment test be performed?
 - (c) At what level of aggregation should the test be performed?
 - (d) Disclosure

However, the recommendations are based on the overall feedback received as part of Phase 1 and Phase 2 outreach.

- 7 Since a different group of respondents were interviewed in Phase 1 and Phase 2, a different set of questions were posed, with more detailed follow up questions raised in Phase 2, which resulted in different perspectives on issues, as documented in Agenda Paper 9.1. Having said that, there were no major inconsistencies in the feedback received in Phase 1 and Phase 2. Additionally, Staff would like to highlight to the Board that Agenda Paper 9.1 is the first working draft of the research report and comments have been added in Agenda Paper 9.1 where additional work is required to finalise the research report.
- 8 There was good participation to the outreach events conducted and the feedback and comments received were very helpful for the authors to gain valuable insights into the

methods used by analysts to assess impairment, including insights about those pieces of information in financial statements that are genuinely valuable to users.

Summary of staff recommendations

- 9 The staff suggest the following recommendations be made to the IASB in respect of proposed amendments to IAS 36:
- a) Update the impairment testing requirements to include greater clarity as to the purpose of the impairment test, including guidance on what the test is and is not expected to achieve.
 - b) Perform further research on a modified-single model approach, with specific amendments to:
 - (i) remove the existing restrictions on ViU regarding future restructurings and asset enhancements, and replace those restrictions with guidance on when it would be reasonable to include such cash flows in an impairment model,
 - (ii) allow the use of a pre-tax discount rate; and
 - (iii) reserve the use of the Fair Value Less Costs of Disposal (“FVLCD”) model for assets expected to be disposed of within the following financial reporting period; and
 - (iv) permit the use of market-based assumptions within the cash flow model such as a forward curve for commodity prices and foreign exchange rates.
 - c) Enhance the functionality of the standard in respect of allocation of goodwill to CGUs. Perform further research on how the current requirements align with how an entity’s results are viewed and decisions made internally. In light of those results, redraft the existing guidance as to what constitutes a CGU or relevant group of CGUs to clarify and provide support to this objective.
 - d) Given the importance placed by users on disclosure of assumptions, implement the following enhanced disclosure proposals:
 - (i) further guidance on the definition of a key assumption; and
 - (ii) qualitative disclosure of expected synergies supporting the premium paid on acquisition.

Questions to the Board:

Q1 Does the Board agree that the outreach conducted and the findings in the research report are sufficient to formulate recommendations to the IASB? If no, does the Board think any additional work needs to be undertaken?

Q2 If yes to Q1, does the Board agree with the recommendations to the IASB in the draft Report?