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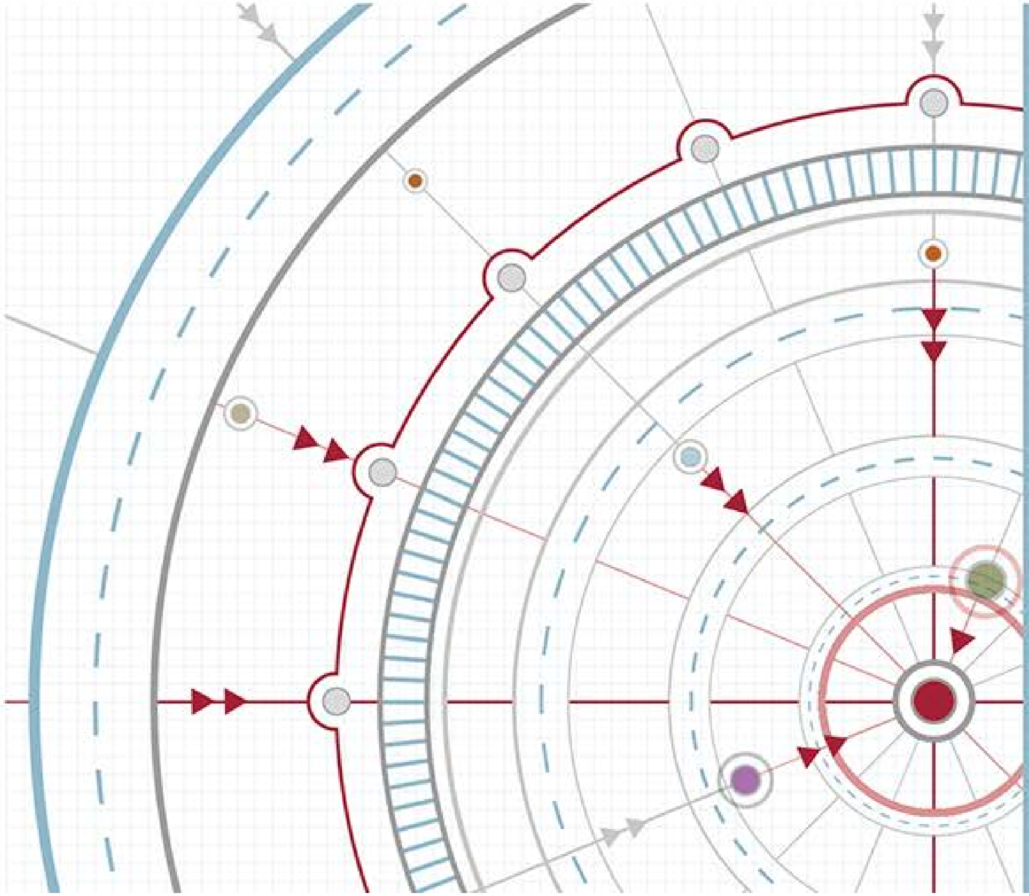

Discussion Paper

Business Combinations—Disclosures, Goodwill and Impairment

Accounting Standards Advisory Forum meeting
October 2020

ASAF Agenda Paper 1

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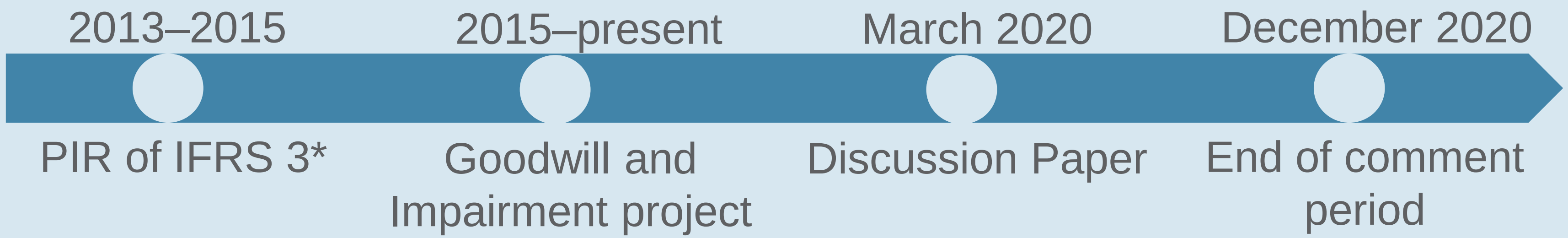
The Discussion Paper

Objective

To improve the information companies provide to investors, at a reasonable cost, about the acquisitions those companies make.

Timeline



Feedback

The Board is mainly seeking comments on:

- the usefulness and feasibility of its new disclosure ideas; and
- new evidence or arguments on how to account for goodwill.

* IFRS 3 introduced the impairment-only approach and replaced IAS 22 which required amortisation.

Stakeholders’ feedback from the PIR of IFRS 3 includes:

Investors do not get enough information about acquisitions and their subsequent performance

The impairment test is complex and costly for companies

Impairment losses on goodwill are recognised too late

Goodwill should be amortised. It has been paid for and so, sooner or later, it should have an impact on profit or loss.

It is difficult for companies to account for intangible assets such as customer relationships and brands separately from goodwill

The Board's preliminary views

❶ Improving disclosures about acquisitions	Require companies to disclose: • management's objectives for acquisitions; and • how acquisitions have performed against those objectives subsequently.		
❷ Improving the accounting for goodwill	A	Can the impairment test be made more effective?	Not significantly, and not at a reasonable cost.
	B	Should goodwill be amortised?	No, retain the impairment-only model.
	C	Can the impairment test be simplified?	Yes, provide relief from the annual impairment test and simplify value in use.
❸ Other topics	• Present on the balance sheet the amount of total equity excluding goodwill. • Do not change recognition of intangible assets separately from goodwill.		

Discussion with ASAF members

Purpose of meeting

- Discuss initial feedback received by the Board and how it compares to initial feedback ASAF members have collected in their jurisdictions to date
- Discuss ASAF members plans to stimulate further feedback

Questions for ASAF members

Discussion Paper

- The Appendix lists the initial feedback that the Board has heard. Have you heard similar or different feedback as the Board?
- Do you have any suggestions how the Board may resolve some of the issues identified?
- Do you have any other comments on the feedback?

Outreach & Fieldwork

- What outreach or fieldwork have you conducted so far?
- What outreach or fieldwork plans do you have in the coming months?

Appendix

Initial feedback on the Discussion Paper

1 Improving disclosures about acquisitions

Overall message

- Agree with direction
- Users generally think information would be useful
- Some concerns over implementation

Specific area of concern—Disclosing objectives and performance of acquisitions

Board’s preliminary view

- At the acquisition date:
  - Strategic rationale and objectives
  - Metrics for monitoring achievement of objectives
- After the acquisition date:
  - Performance against objectives

Initial feedback received

- Information not currently provided
- Information needed for stewardship purposes
- Not comparable across companies
- Better placed in management commentary
- Information may be forward-looking
- Information may be commercially sensitive
- Integration prevents information being provided

1 Improving disclosures about acquisitions

Specific area of concern—
Disclose information based on what Chief Operating Decision Maker monitors

Board's preliminary view

- Management defined as the Chief Operating Decision Maker (CODM) as per IFRS 8 *Operating Segments*
- Provide additional disclosures about objectives and targets based on the information about acquisitions that the CODM monitors

Initial feedback received

- Why is a different materiality threshold applied?
- Insufficient guidance in IFRS 8 to identify CODM
- Information the CODM monitors is not granular enough
- Disconnect between proposed disclosures and goodwill impairment

1 Improving disclosures about acquisitions

Specific area of concern—Targeted disclosure improvements

Board’s preliminary view

Companies should disclose:

- Amount of expected synergies
- Debt and pension liabilities acquired
- Actual and pro-forma revenue, operating profit and operating cash flow

Initial feedback received

- Difference in views between users and preparers over disclosure of expected synergies
- General agreement for debt and pension liability disclosures
- General agreement for disclosure of operating profit; some reservations about operating cash flow

2 Improving the accounting for goodwill

Overall message

- Stakeholders remain split over impairment-only vs amortisation
- No new evidence or arguments provided for either view

Specific area of concern— Simplifying and improving the impairment test

Board's preliminary view

- Retain impairment-only model
- Current impairment test cannot be significantly improved
- Relief from annual impairment test
- Simplify VIU calculation
  - include restructuring cash flows
  - allow post-tax calculations

Initial feedback received

- Provide guidance on allocating goodwill to CGUs
- Require disclosure of actual vs forecasted cash flows to discourage over-optimism
- Concerns that relief will impact robustness of test
- Support for proposed changes to VIU calculation, but with some concerns over impact on robustness
- Require impairment testing before restructuring
- Allow companies to roll forward calculations more easily

3 Other topics

Specific area of concern—Intangible assets and presenting total equity excluding goodwill

Board's preliminary view

- No compelling evidence that the recognition criteria for intangible assets acquired in a business combination should be changed
- Companies should present total equity excluding goodwill

Initial feedback received

- Views continue to be mixed about whether the separate recognition of all identifiable intangible assets in a business combination provides useful information
- General disagreement for presenting total equity excluding goodwill
  - calls into question whether goodwill is an asset
  - unnecessary as stakeholders are able to compute the amount easily

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