IASB® meeting

Date	**December 2024**
Project	**Business Combinations—Disclosures, Goodwill and Impairment**
Topic	**Feedback Summary – Project objective and scope**
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Purpose and structure

1. As Agenda Paper 18 to this meeting explains, this paper summarises feedback about the objective and scope of the International Accounting Standards Board's (IASB) project—Business Combinations—Disclosures, Goodwill and Impairment.

2. This paper is structured as follows:

   (a) key messages (paragraphs 3–4);

   (b) background (paragraphs 5–9);

   (c) feedback summary (paragraphs 10–19);

   (d) question for the IASB; and

   (e) Appendix A—Reintroducing goodwill amortisation.

Key messages

3. Although not specifically asked, some respondents commented on the project objective. Most of these respondents agree with the objective of providing users of financial statements (users) better information about business combinations at a reasonable cost. Some respondents highlight the importance of this information for users.

4. However, some respondents express concerns about whether the proposals go far enough, particularly to address concerns about impairment losses on goodwill sometimes being recognised too late. Many of these respondents suggest reintroducing goodwill amortisation.

Background

5. Business combinations are often significant transactions for the entities involved and play an important role in the global economy. IFRS 3 *Business Combinations* specifies how an entity accounts for a business combination.

6. Through its post-implementation review (PIR) of IFRS 3 and subsequently, the IASB was informed that:

    (a) users need better information to help them assess the performance of a business combination. In the absence of other information about the performance of a business combination, some users use information provided by the impairment test of cash-generating units (CGUs) containing goodwill in IAS 36 *Impairment of Assets* as a proxy for assessing the success of a business combination.

    (b) the impairment test of CGUs containing goodwill is complex, time-consuming and expensive and that impairment losses are sometimes recognised too late (that is, there appears to be a delay between an impairment occurring and an impairment loss being recognised in financial statements).

7. The project responds to these concerns. The project's objective is to explore whether entities can, at a reasonable cost, provide users with more useful information about business combinations. Providing users with such information would help them make better decisions by allowing them to better assess:

    (a) the performance of an entity's business combinations; and

    (b) how efficiently and effectively management has used the entity's economic resources to acquire these businesses.

8. The Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment* (Exposure Draft) proposed a package of amendments designed to meet the project objective. These proposed amendments built on the preliminary views in the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* (Discussion Paper) and reflected the IASB's consideration of feedback on those preliminary views. The proposed amendments in the Exposure Draft mainly[1] related to:

   (a) the disclosure requirements in IFRS 3; and

   (b) the impairment test in IAS 36.

9. As part of this project, the IASB also explored whether to reintroduce goodwill amortisation. On balance, considering the extensive evidence collected (including feedback on the PIR of IFRS 3, the Discussion Paper and additional outreach), the IASB concluded it had no compelling case to justify reintroducing goodwill amortisation and so decided to retain the impairment-only model for the subsequent accounting for goodwill.

Feedback summary

10. Some respondents provide feedback on the project objective, of which:

    (a) most support the project objective (paragraph 11); and

    (b) some raise concerns about the IASB's approach to achieving the project objective (paragraphs 12–19).

Support for project objective

11. Most respondents—which included some users, some preparers and preparer groups, some regulators and a few auditors—agree with the project objective of providing

[1] Related to the proposed amendments to IFRS 3 and IAS 36, the IASB also proposed changes to IFRS 19 *Subsidiaries without Public Accountability: Disclosures.*

users with better information about business combinations at a reasonable cost. For example:

(a) one investor group says they support the project objective and that the package of proposed amendments goes some way to improve user information.

(b) one preparer group says it is integral to provide users decision-useful information. They also acknowledge that information should be provided at a reasonable cost and that striking a balance between the needs of users and costs of preparers should always be pursued.

(c) one national standard-setter says ‘users they consulted share a need for improved information about business combinations to assess the acquisition's merit, the performance of acquired businesses and to hold management accountable for their investment decisions.’

Approach to achieving the project objective

12. Some respondents raise concerns about the IASB’s approach to achieve the project’s objective. A few of these respondents say the project's focus should be to address only the subsequent accounting for goodwill (see Appendix A for feedback about goodwill amortisation). They say the project's original intent was specifically to address feedback that impairment losses are being recognised ‘too late’ and the proposals do not go far enough to address this feedback.

13. Some respondents—almost all of whom agree with the project objective—nonetheless suggest alternative approaches that in their view would better achieve the project objective. These include:

(a) reintroducing goodwill amortisation (paragraphs 14–15); and

(b) changing the scope of the project (paragraphs 16–19).

Reintroducing goodwill amortisation

14. Some respondents, particularly from Japan, support the project objective but say reintroducing goodwill amortisation would be a better way to achieve the objective. For example:

    (a) one national standard-setter says they continue to think goodwill amortisation should be reintroduced to address feedback from the PIR of IFRS 3; and

    (b) one securities regulator says goodwill is a wasting asset and therefore, reintroducing goodwill amortisation should be the project's outcome.

15. Feedback about reintroducing goodwill amortisation is consistent with feedback the IASB previously considered. Appendix A provides further information about feedback specific to reintroducing goodwill amortisation.

Changing the scope of the project

16. A few respondents suggest separating the project into two parts. One accounting firm that expresses significant concerns about some of the disclosure proposals suggests finalising the impairment proposals independently. In contrast, one organisation representing a group of securities regulators suggests finalising the disclosure proposals about business combinations in a timely manner and investing additional time to explore proposals that would improve the impairment test and more comprehensively address feedback about delayed impairment recognition.

17. One accounting firm says the IASB should separately consider in its next agenda consultation whether there should be better disclosure for capital expenditure (other than business combinations) that can be strategically important and significant.

18. One national standard-setter disagrees with the approach to addressing users' information needs through the disclosure proposals about business combinations. They say the IASB could better meet the project objective by enhancing disclosure requirements about the impairment test of CGUs containing goodwill.

19. A few respondents suggest considering the interaction of this project with the IASB's Intangible Assets project. For example, one organisation representing a group of securities regulators suggests addressing shielding of goodwill as part of the Intangible Assets project.

Question for the IASB
Do IASB members have any questions or comments on the feedback in this agenda paper?

Appendix A—Reintroducing goodwill amortisation

Summary of proposals

A1. The Exposure Draft did not ask respondents for their views on the IASB's decision to retain the impairment-only model. Nonetheless, a few respondents provided feedback on that decision which this appendix summarises.

Feedback

A2. Some respondents provided feedback on the potential reintroduction of goodwill amortisation, including:

(a) support for reintroducing goodwill amortisation (paragraphs A3–A6); and

(b) support for retaining the impairment-only approach (paragraph A7).

Supporting for reintroducing goodwill amortisation

A3. Some respondents support reintroducing goodwill amortisation. Most of these respondents provided feedback, such as that goodwill is a wasting asset, or that amortisation is a practical solution for delayed impairment recognition. For example:

(a) one national standard-setter from Asia-Oceania says they continue to believe goodwill is a wasting asset and that amortisation would provide useful information and more effectively address concerns about delayed impairment recognition.

(b) one global accounting firm says reintroducing goodwill amortisation would more effectively address concerns relating to the uncertain nature of goodwill and accuracy of impairment tests over a long period.

(c) one preparer group says amortising goodwill would significantly reduce the cost and subjectivity of impairment testing and mitigate concerns about shielding or management over-optimism.

(d) one respondent says goodwill amortisation would best enable balance sheets to be protected when a financial crisis strikes. They say goodwill amortisation would be a pragmatic way of reflecting competitive forces which can erode the benefits of an acquired business.

A4. One of the IASB's proposals would require entities to disclose the period over which synergies are expected to last. A few respondents say this proposal shows that the useful life of goodwill can be estimated and is inconsistent with one of the IASB's main arguments for not reintroducing goodwill amortisation, which was the difficulty in estimating the useful life of goodwill.

A5. A few respondents that support reintroducing goodwill amortisation suggest specific approaches for calculating goodwill amortisation, for example, one respondent suggests requiring an entity to analyse the composition of goodwill (for example, synergies, cost savings, new business prospects) and determine whether each component has a finite life and to then amortise the finite life components.

A6. A few respondents suggest combining amortisation with impairment testing. For example, one professional body recommends a hybrid approach whereby an entity would carry out an annual impairment test of goodwill in the first few years after an acquisition, followed by goodwill amortisation in later years.

Support for retaining the impairment-only approach

A7. A few respondents explicitly support retaining the impairment-only model. For example, one global valuation specialist firm says goodwill amortisation should not be reintroduced. They say even with improved disclosures about business combinations, goodwill impairments would continue to have confirmatory and other value, contribute to transparency in financial information, and help investors in evaluating management's stewardship of the business.