IFRS Accounting

Staff paper

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Project	**Business Combinations—Disclosures, Goodwill and Impairment**
Topic	**Project objective and approach**
Contacts	Vikash Kalidas (vkalidas@ifrs.org)

Purpose

1. This paper provides the International Accounting Standards Board (IASB) with our analysis of feedback on the objective—and feedback on the IASB's approach to achieve the objective—of its Business Combinations—Disclosures, Goodwill and Impairment project.

2. This paper also asks whether you agree with our recommendation to:

    (a) retain the project objective but to adjust the wording of the objective to reflect the stage of the project (see paragraph 19); and

    (b) retain the approach to achieving the project objective—that is, to continue to consider only:

        (i) requiring an entity to disclose information about the performance of a business combination and quantitative information about synergies expected from a business combination;

        (ii) requiring some of this information only for a subset of business combinations;

        (iii) exempting an entity from disclosing some of this information in some situations;

(iv) other amendments to the disclosure requirements in IFRS 3 proposed in the Exposure Draft;

(v) some targeted improvements to the impairment test in IAS 36 *Impairment of Assets* to help (a) mitigate management over-optimism and shielding; and (b) reduce cost and complexity; and

(vi) other amendments that may be needed as a result of the above considerations (for example, amendments to IFRS 19 *Subsidiaries without Public Accountability* and transition requirements).

3. This paper discusses whether to retain the approach to achieving the project objective but does not analyse the specific proposed amendments themselves. For example, we are recommending *continuing to explore* whether to require an entity to disclose expected synergy information and, if so, what specific information to require an entity to disclose. We have not analysed, and do not have a recommendation on, whether to require an entity to do so at this stage. As Agenda Paper 18G of the IASB's January 2025 meeting explains, the IASB will commence redeliberation of the specific proposals after concluding on the project objective and approach. Throughout redeliberations, the IASB will consider, for example, whether to retain, amend or remove the specific proposals in the Exposure Draft.

4. We emphasise that any decision made at this stage is tentative and would not prevent the IASB from exploring other approaches to achieving the project objective at a later date, if it thinks doing so would be necessary to achieve the project objective.

Structure

5. This paper is structured as follows:

(a) background (paragraphs 6–11);

(b) feedback summary (paragraph 12);

(c) staff analysis including questions for the IASB (paragraphs 13–40); and

(d) next steps (paragraph 41).

Background

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

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

   (a) users of financial statements (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 (impairment test) in IAS 36 as a proxy for assessing the success of a business combination.

   (b) the impairment test 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).

8. The introduction of the Exposure Draft states:

> …The project's objective is to explore whether entities can, at a reasonable cost, provide users with more useful information about business combinations…

9. The introduction then explains:

> 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.

10. The [Exposure Draft] proposed a package of information designed to meet the project objective. The proposed amendments mainly related to:

(a) the disclosure requirements in IFRS 3. In particular, the IASB proposed:

(i) introducing new requirements to disclose information about the performance of a business combination for some business combinations (performance information) and quantitative information about synergies expected from a business combination (expected synergy information). An entity would be exempted from disclosing some of this information in some situations.

(ii) some other amendments to the disclosure requirements in IFRS 3.

(b) the impairment test in IAS 36. In particular, the IASB proposed some targeted improvements to the requirements relating to the calculation of value-in-use, the allocation of goodwill to cash-generating units and the disclosure requirements.

11. As part of this project, the IASB also explored whether to reintroduce goodwill amortisation. On balance, considering the evidence collected—including feedback on the PIR of IFRS 3, the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment* (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

12. As paragraphs 10–19 of Agenda Paper 18A of the IASB's December 2024 meeting (December agenda paper) explain:

(a) although not specifically asked, some respondents commented on the project objective. Most of these respondents—which included some users, some preparers and preparer groups, some regulators and a few auditors—agreed with the objective. Some respondents highlighted the importance of this information for users.

(b) some respondents raised concerns about the IASB’s approach to achieve the project’s objective. A few of these respondents said the project's focus should be to address only the subsequent accounting for goodwill. They said the project's original intent was specifically to address feedback that impairment losses are being recognised ‘too late’ and the proposals did not go far enough to address this feedback.

(c) some respondents—almost all of whom agreed with the project objective—nonetheless suggested alternative approaches that in their view would better achieve the project objective. These include:

  (i) reintroducing goodwill amortisation; and

  (ii) changing the scope of the project.

Staff analysis

13. The following paragraphs set out our analysis about:

  (a) the project objective (paragraphs 14–20); and

  (b) the approach to achieving the project objective (paragraphs 21–40).

Project objective

14. As paragraph 12(a) to this paper notes, most respondents who commented, which included users, some preparers and preparer groups, some regulators and a few auditors, explicitly supported the project objective—to explore whether entities can, at

a reasonable cost, provide users with more useful information about business combinations.

15. Such feedback confirms that:

    (a) information to assess the performance of business combinations could be decision-useful; and

    (b) the IASB should balance user needs with preparer costs.

16. We disagree that the focus of the project, and consequently, the objective, should be to only address concerns about the subsequent accounting for goodwill. As paragraph 7 of this paper notes, through its PIR of IFRS 3 and subsequently, the IASB was informed that not only are impairment losses sometimes recognised too late but also that:

    (a) users need better information to help them assess the performance of a business combination; and

    (b) the impairment test is complex, time-consuming and expensive.

17. While some respondents who commented on the project objective expressed concerns about the approach to achieving that objective (analysed in paragraphs 21–40), these respondents did not suggest changing the project objective.

18. Consequently, we think the objective as described in the Exposure Draft (see paragraph 8) remains appropriate.

19. Nonetheless, we think the IASB should adjust the wording of the objective to reflect the stage of the project. The IASB is considering feedback on its proposals in the Exposure Draft. In particular, we think the wording in the project objective that refers to '…explore whether entities can…' should be adjusted to refer to '…develop requirements for entities to…'. Consequently, the project objective would be:

to develop requirements for entities to provide more useful information to users about business combinations, at a reasonable cost.[1]

Conclusion and staff recommendation

20. On the basis of our analysis, we recommend retaining the project objective but adjusting the wording of the objective to reflect the stage of the project.

Question for the IASB
Does the IASB agree with our recommendation to retain the project objective but adjust the wording of the objective to reflect the stage of the project?

Approach to achieving the project objective

21. As paragraphs 12(b) and 12(c) of this paper note:

    (a) a few of the respondents who raised concerns about the IASB's approach to achieving the project objective say the project's focus should be to address only the subsequent accounting for goodwill; and

    (b) some respondents suggest alternative approaches to better achieve the project objective which include:

        (i) reintroducing goodwill amortisation (paragraphs 23–28); and

        (ii) changing the scope of the project (paragraphs 29–39).

22. For reasons set out in paragraph 16 of this paper, we disagree with respondents who say the project's focus should be to address *only* the subsequent accounting for goodwill. The remainder of this section discusses suggestions in paragraph 21(b).

[1] We have adjusted the wording of the project objective from that set out in paragraph 8 of this paper to reflect our suggestion in this paragraph and some other conforming editorial changes. Although this paragraph illustrates what we think the wording of the project objective should be, we are not asking for drafting suggestions at this meeting.

Reintroducing goodwill amortisation

Background

23. In developing the Exposure Draft, the IASB considered but on balance decided not to reintroduce goodwill amortisation. Paragraphs BC228–BC251 of the Basis for Conclusions on the Exposure Draft (Basis for Conclusions) explain the IASB's considerations in this regard. In summary:

(a) the IASB concluded there was no compelling case that reintroducing goodwill amortisation would significantly improve the information users receive about business combinations because:

(i) feedback on the Discussion Paper provided evidence that stakeholders hold strong and differing views about reintroducing goodwill amortisation. The key reason for this divergence was a difference in stakeholders' views of the nature of goodwill and whether it is predominantly a wasting asset or an asset with an indefinite life. While stakeholders provided evidence to support their differing views and gave reasons why the models for subsequent accounting—that is, an impairment-only model or an amortisation-based model—could provide useful information, that evidence did not clearly demonstrate that one view was 'more correct' than the other.

(ii) whether goodwill amortisation can provide useful information depends on whether it is feasible to estimate a useful life of goodwill and the pattern in which it diminishes that faithfully represents its decline in value. The IASB's research on whether this was feasible was inconclusive.

(b) feedback on whether reintroducing amortisation of goodwill would reduce costs was mixed.

24. In reaching its conclusions in the Exposure Draft, the IASB also considered feedback that suggested the impairment test in IAS 36 is not working and that carrying amounts

of goodwill are 'too high'. As paragraphs BC247–BC251 of the Basis for Conclusions explain, in the IASB's view:

(a) concerns that carrying amounts of goodwill are 'too high' were not compelling. Goodwill is not directly observable. Therefore, it is difficult to determine whether 'high' goodwill balances are a significant issue and what conclusions to draw from quantitative evidence provided by stakeholders.

(b) this feedback could arise from a misunderstanding of what the impairment test is designed to achieve and could reflect an unrealistic expectation that the impairment test directly tests goodwill or can reflect consumption of that goodwill. The objective of the impairment test is to ensure the carrying amounts of acquired goodwill—together with other assets within the CGUs containing goodwill—are recoverable from the cash flows jointly generated by these assets and the internally generated goodwill of the unit. The objective is not to test the acquired goodwill directly.

Feedback and staff analysis

25. 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. Appendix A of the December agenda paper summarises that feedback. As that appendix notes:

(a) some respondents supported 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.

(b) a few respondents explicitly supported retaining the impairment-only model.

26. Feedback about reintroducing goodwill amortisation, and respondents' reasons for suggesting reintroducing goodwill amortisation, are consistent with feedback the IASB already considered in developing the Exposure Draft.

27. A few respondents said the IASB's proposal to require entities to disclose the period over which synergies are expected to last[2] shows the useful life of goodwill can be estimated. We disagree with this as a reason for reintroducing goodwill amortisation. In particular:

    (a) goodwill does not comprise solely of expected synergies. Paragraph B64(e) of IFRS 3 requires an entity to disclose (emphasis added) 'a qualitative description of the factors that make up the goodwill recognised, such as *expected synergies…, intangible assets that do not qualify for separate recognition or other factors*'.

    (b) as paragraph 23(a)(ii) notes, the IASB's research on whether it is feasible to estimate the useful life of goodwill was inconclusive.

    (c) the proposal to require entities to disclose the period over which synergies are expected to last does not demonstrate that expected synergies always have an estimable finite life. Paragraph BC158 of the Basis for Conclusions says 'the entity would have to identify whether the synergies are expected to be finite or indefinite'.

28. In our view, respondents did not provide new evidence suggesting we should re-consider the IASB's decision to retain the impairment-only model. Consequently, we think the IASB should not explore reintroducing goodwill amortisation as part of this this project.

Changing the scope of the project

29. This section discusses suggestions to change the scope of the project which are summarised in paragraphs 16–19 of the December agenda paper. In addition, it also discusses suggestions to make more fundamental changes to IAS 36 to address concerns about impairment losses sometimes being recognised too late (see paragraph

[2] Paragraph B64(ea) (iii) of the Exposure Draft.

18 of Agenda Paper 18D of the IASB's January 2025 meeting). This section is structured as follows:

(a) separating project into two parts (paragraphs 30–32);

(b) considering more fundamental changes to the impairment test (paragraphs 33–36); and

(c) other suggestions (paragraphs 37–38).

Separating project into two parts

30. The Exposure Draft proposed a package of amendments designed to meet the project objective. As paragraph 16 of the December agenda paper notes, a few respondents suggested separating the project into two parts. One accounting firm that expressed significant concerns about some of the disclosure proposals suggested finalising the impairment proposals first. In contrast, one organisation representing a group of securities regulators suggested finalising the disclosure proposals about a business combination first and investing additional time to explore proposals that would improve the impairment test and more comprehensively address feedback about delayed impairment recognition.

31. We continue to think the amendments proposed in the Exposure Draft are a package and the IASB should continue to consider the proposed amendments to IFRS 3 and IAS 36 (and related amendments) together. In particular, we note:

(a) only a few respondents suggested separating the project and these respondents had contrasting views on which part to do first.

(b) the package is a collective response to users' need for better information about business combinations and concerns about the impairment test (see paragraph 7). For example, the proposed requirement to disclose information about the performance of a business combination is aimed at responding not only to the identified user need for better information about business combinations but also to concerns about delayed recognition of impairment losses. As the Introduction to the Exposure Draft notes, feedback suggested that in the absence of information to directly assess the success of a business combination, some users use information provided by the impairment test in IAS 36 as a proxy. Using such information could be misleading because the impairment test was not designed to directly test the carrying amount of goodwill or to assess the success of a business combination. Requiring entities to more directly disclose information about a business combination's performance eliminates the need to use information from the impairment test as a proxy.

(c) in proposing the amendments, the IASB considered whether the benefits of the proposals collectively outweigh their costs. Separating the project could result in a change to that assessment.

(d) separating the project would be less efficient from a project management perspective and could delay the project because:

   (i) as Agenda Paper 18G of the IASB's January 2025 meeting explains, we plan to ask the IASB to discuss different topics as and when time permits—for example, we might present the IASB with our analysis of a proposed amendment to IAS 36 while we are consulting on some matters related to IFRS 3 proposals; and

   (ii) separating the project would result in duplicating steps of the project (for example, publication of two sets of final amendments, etc).

32. Consequently, we think the IASB should not separate the project into two parts.

Considering more fundamental changes to the impairment test

33. Paragraphs BC188–BC193 of the Basis for Conclusions explain the IASB's considerations in response to concerns about the effectiveness of the impairment test and why the IASB decided to focus on targeted improvements to help mitigate the two main reasons for those concerns (that is, management over-optimism and shielding). In reaching its conclusions, the IASB considered whether it could, for example, design a different impairment test from the one in IAS 36 that would be

significantly more effective at recognising goodwill impairment losses at a reasonable cost (for example, the headroom approach[3]). However, the IASB concluded it was not feasible to do so.

34. As paragraph 18 of Agenda Paper 18D of the IASB's January 2025 meeting notes, some respondents provided feedback on the IASB's decision to make targeted amendments to the impairment test to reduce management over-optimism and shielding. One preparer explicitly welcomed the decision not to make fundamental changes to the impairment test and instead to provide helpful clarifications. However, other respondents said a more fundamental change to IAS 36 is required to address the concern about impairment losses sometimes being recognised too late. For example, one organisation representing a group of securities regulators suggested investing additional time to explore proposals that would improve the impairment test and more comprehensively address feedback about delayed impairment recognition. In addition to suggesting the re-introduction of goodwill amortisation (see paragraphs 23–28):

    (a) one respondent regretted the IASB not pursuing the headroom approach;

    (b) one respondent said the impairment model relies too heavily on estimates; and

    (c) a few respondents suggested addressing shielding as part of the IASB's Intangible Assets project.

35. Respondents have not provided information, or a rationale for considering more fundamental changes to improve the effectiveness of the impairment test that the IASB has not already considered. They have also not made specific new suggestions about what these fundamental changes could be. Accordingly, we continue to agree with the IASB's conclusion that it cannot design a different impairment test from the one in IAS 36 that would be significantly more effective at recognising goodwill impairment losses at a reasonable cost. We also see no reasons to defer consideration of changes to the impairment test to the Intangible Assets project.

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[3] A headroom approach is one in which at least a portion of any reduction in the recoverable amount would be attributed to the acquired goodwill, instead of allocating it first to the unrecognised headroom. See paragraphs BC190–BC191 of the Basis for Conclusions for an explanation of the headroom approach and feedback on that approach.

36. Consequently, we think the IASB should, in response to concerns about the effectiveness of the impairment test, continue to consider only targeted improvements to mitigate management over-optimism and shielding. We will, at a later stage, analyse feedback on the proposed targeted amendments, including suggestions for targeted amendments not previously considered.

Other suggestions

37. One national standard-setter disagreed with the approach to addressing users' information needs through the disclosure proposals about business combinations (see paragraph 18 of the December agenda paper). They said the IASB could better meet the project objective by enhancing disclosure requirements about the impairment test. We disagree. This project aims to respond to an identified user need for better information about the performance of a business combination (see paragraph 7). As paragraph 31(b) notes, the impairment test in IAS 36 is not designed to provide information about the success of a business combination. Consequently, we think only enhancing disclosure requirements about the impairment test would not meet the project objective.

38. One accounting firm said 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 (see paragraph 17 of the December agenda paper). We think this is beyond the scope of the project. The IASB expects to soon commence its next agenda consultation and stakeholders will have the opportunity to make this suggestion during that consultation process.

Conclusion and staff recommendation

39. For reasons explained in paragraphs 21–38, we think the IASB should not change its approach to achieving the project objective and should not explore:

(a) reintroducing goodwill amortisation;

(b) separating the projects into two parts;

(c) more fundamental changes to IAS 36; or

(d) other suggestions about its approach to achieving the project objective addressed in paragraphs 37–38.

40. Paragraph 2(b) of this paper summarises our recommendation on the IASB's approach to achieving the project objective.

Question for the IASB
Does the IASB agree with our recommendation in paragraph 2(b)?

Next steps

41. If the IASB agrees with our recommendations in this paper, then as Agenda Paper 18G of the IASB's January 2025 meeting explains, we expect to commence redeliberations on requiring entities to disclose performance and expected synergy information at a future meeting (expected from March 2025).