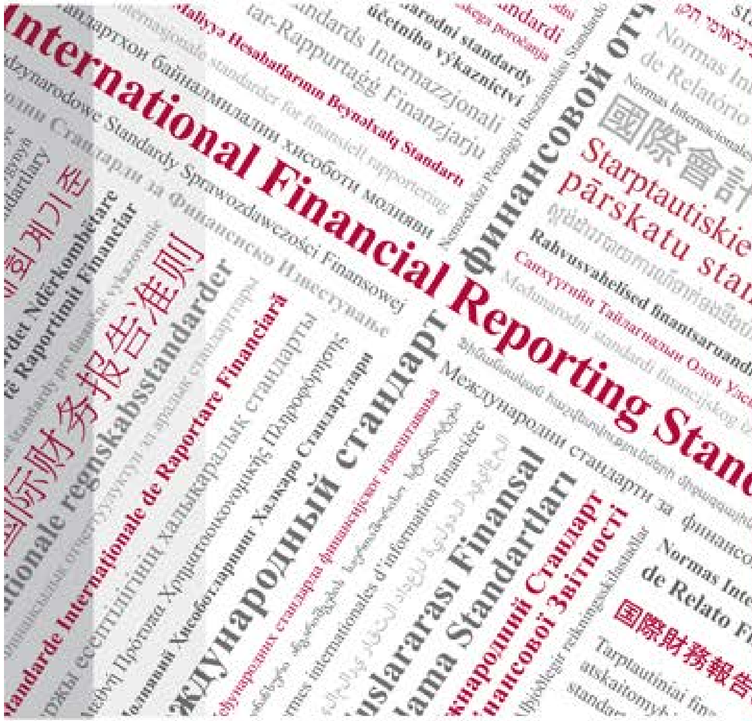
International Financial Reporting Standards



Goodwill and Impairment

The views expressed in this presentation are those of the presenter,
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IFRS™

Introduction

- A Post Implementation Review (PIR) is an important tool in ensuring that *IFRSs* are of high quality and relevant.
- The purpose of a PIR is to determine if: an *IFRS* is operating as intended; if it has achieved its objective and improved financial reporting; and to identify any unintended consequences or new issues which may have emerged.
- As required by our Due Process Handbook, the IASB recently completed a PIR of IFRS 3 *Business Combinations.*

Issues from the IFRS 3 PIR

- From this PIR, the IASB has identified two high priority issues:
  - improving impairment test in IAS 36 *Impairment of Assets*
  - subsequent accounting for goodwill
- Added to IASB research agenda in February 2015 together with two medium/high priority issues
  - identification and measurement of intangible assets
  - how to clarify definition of a business
- Discussions started at joint meeting with US FASB in September 2015

Source: *IFRS as global standards: (*updated July 2015, ongoing)

Addressing high priority issues in PIR

Area of focus	**Possible next steps in the PIR report and feedback statement**
Effectiveness and complexity of testing goodwill for impairment	Consider improvements/simplifications to the impairment model
Subsequent accounting for goodwill	Consider whether and how the costs of accounting for goodwill can be reduced without loss of information. Consider: • how improvements to impairment test could address some concerns raised • whether a variation on an amortisation and impairment model could be developed with an amortisation method that does not undermine the information currently provided by impairment-only approach.

What have we heard from investors?

- Some support current approach (non amortisation) as think has confirmatory value. Some reasons:
  - useful for relating price paid to what was acquired and for calculating return on invested capital
  - helps them to assess the stewardship of the management
  - helps them to verify whether an acquisition is working as expected

What have we heard from investors?

- Others want re-introduction of amortisation of goodwill. Some reasons:
  - acquired goodwill replaced by internally generated goodwill
  - estimating useful life no more difficult than for other intangibles
  - decreases volatility in profit or loss when compared to an impairment model
  - reduces pressure on identification of intangibles if goodwill and intangible assets amortised

Main challenges heard from preparers of impairment test

- Limitations of value in use calculation:
    - High degree of subjectivity
    - Difficulties in determining pre-tax discount rate
    - Prohibitions on what can be included in cash flows
- Time lag between impairment occurring and charge being recognised in the financial statements
- Costs/difficulties of annual impairment test and allocating/reallocating goodwill to CGUs

Suggestions for future academic research

- CEO Changes – what is the correlation of impairment charges when new CEO is an outside hire versus internal promotion?
- What is the correlation of impairment charges to announced changes in strategy versus other factors?
- Correlation of lagging entity share price movement versus overall equity market changes to incidences of impairment charges?
- What are the most relevant cash flows which should be included in impairment testing?
- In view of current IASB project agenda, increased research focus on goodwill impairments, and potential accounting alternatives, versus non goodwill impairments.