

STAFF PAPER

November 2015

IASB Meeting

Project	Goodwill and impairment project		
Paper topic	Cover Paper		
CONTACT(S)	Michelle Fisher	mfisher@ifrs.org	+44(0) 20 7246 6918

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Objective of this meeting

1. The objective of this meeting is for the International Accounting Standards Board (IASB) to:
 - (a) discuss the third topic in its goodwill and impairment project— identification and measurement of intangible assets in a business combination; and
 - (b) consider the feedback we have received so far about what users of financial statements want to receive about goodwill and impairment.

Structure of this paper

2. This paper includes the following sections:
 - (a) List of November 2015 meeting papers
 - (b) Background
 - (i) September 2015 IASB/FASB meeting
 - (ii) October 2015 IASB meeting
 - (c) October 2015 FASB meeting
 - (d) Aim of the November 2015 IASB meeting
 - (e) Due process document discussion

- (f) Proposed project timetable

List of November 2015 meeting papers

- 3. IASB staff papers:
 - (a) Agenda Paper 18: Cover paper (this agenda paper)
 - (b) Agenda Paper 18A: Identification and measurement of intangible assets acquired in a business combination
 - (c) Agenda Paper 18B: Feedback from users of financial statements about information on goodwill and impairment
 - (d) Agenda Paper 18C: Appendices accompanying Agenda Papers 18A and 18B (for reference)

Background

- 4. In February 2015, based on its findings during the Post-implementation Review (PIR) of IFRS 3 *Business Combinations* the IASB added to its research agenda the following areas of focus (collectively covered by the goodwill and impairment project):
 - (a) improving the impairment test in IAS 36 *Impairment of Assets*;
 - (b) subsequent accounting for goodwill (including the relative merits of an impairment-only approach and an amortisation and impairment approach); and
 - (c) identification and measurement of intangible assets acquired in a business combination.

September 2015 IASB/FASB meeting

- 5. In September 2015 the IASB and the FASB had a joint meeting to discuss the timing and overlap of their respective projects. The FASB has active projects on

its agenda for public business entities and not-for-profit entities looking at accounting for goodwill, including impairment, and separately for the accounting for identifiable intangibles in a business combination.

6. Currently neither the IASB nor the FASB has reached a consensus on its approach for addressing these issues. However, the FASB staff have conducted research and outreach on alternatives for the FASB's consideration and the FASB has had several discussions.
7. At the September meeting the IASB staff highlighted the interrelationship of the three issues in paragraph 4 and provided a number of possible approaches that could be considered for addressing the issues. In the light of the interrelationships and possible new approaches that could be considered the staff suggested that a Discussion Paper might need to be considered as the next due process step, rather than proceeding to an Exposure Draft.
8. No decisions were made by the two Boards at the September meeting. However the staff think the following points came out of that meeting for the IASB to consider going forward:
 - (a) The IASB needs a strong argument to support making further significant changes to IFRS 3. Stakeholders have always had opposing and strongly held views on accounting for goodwill (in particular amortisation versus non-amortisation) and the feedback during the PIR did not provide evidence that this diversity has decreased.
 - (b) The form of due process document (Exposure Draft versus Discussion Paper) should depend on the nature of any proposals being made by the IASB. If we can proceed directly to an Exposure Draft we should do so in order to move more quickly.
 - (c) IFRS 3 *Business Combinations* and Statement 141R *Business Combinations* (codified in Topic 805 of the Accounting Standards Codification) of the US Financial Accounting Standards Board (FASB) are converged standards. There is strong support for the IASB to stay converged with the FASB where possible. The best approach to

achieve this would be for both Boards to work together and make any decisions about potential amendments to Standards jointly.

- (d) The IASB should have its own discussion initially on the three topics before further discussing the topics with the FASB.

October 2015 IASB meeting

- 9. At the October meeting the IASB started its discussions on two of the three topics: These were:
 - (a) subsequent accounting for goodwill; and
 - (b) improving the impairment test.
- 10. This was not intended to be a decision making meeting and so no decisions were made. The IASB asked the staff to perform additional work to understand better what information investors want to receive about goodwill and impairment to inform the IASB's future discussions.

October 2015 FASB meeting

- 11. At its meeting in October 2015 the FASB discussed issues on the accounting for identifiable intangible assets in a business combination:
 - (a) The FASB discussed whether to change the initial recognition of customer-related intangible assets or noncompetition agreements acquired in a business combination for public business entities in light of the totality of the staff's research and outreach conducted to date.
 - (b) The FASB decided to continue this project by continuing to engage with the international community on this matter. In particular, the FASB directed the staff to research whether the usefulness of information provided by the recognition of acquired intangible assets is different for US and international investors and if so, why that difference exists.

12. The FASB also discussed whether and how to change the subsequent measurement of goodwill and made the following decisions:

- (a) The FASB decided to proceed with the project under a phased approach. The first phase is to simplify the impairment test by removing the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value (step 2 of the impairment model in US GAAP). The FASB considered but decided not to allow entities an option to perform step 2.
- (b) In the second phase of the project, the FASB plans to work concurrently with the IASB to address any additional concerns about the subsequent accounting for goodwill.

(Vote to proceed with phased approach: 6 to 1)

(Vote to eliminate step 2 of the impairment test: 6 to 1)

Aim of the November 2015 IASB meeting

13. At this November meeting the staff would like the IASB to discuss the third topic, identification and measurement of intangible assets and also consider a staff summary of the feedback we have heard so far about what investors want to receive about goodwill and impairment.

14. At this meeting the staff would like the IASB to also consider what additional information they need before:

(a) discussing the most appropriate due process document to work towards;
and

(b) being in a position to discuss any of the topics with the FASB.

15. At the Accounting Standards Advisory Forum (ASAF) meeting in December the staff will ask the ASAF:

(a) to consider the IASB's initial discussion at its October and November 2015 meetings; and

- (b) provide advice on the way forward with the project.

Due process document

16. At the ASAF meeting in March 2015, ASAF members stated there may be no need for the IASB to issue a Discussion Paper because they think it is unlikely to provide additional information.
17. The staff acknowledge that we have a good understanding of the main problems relating to the three topics in paragraphs 4(a)-(c) from the PIR and we can benefit from research and work performed by the FASB and the EFRAG/OIC/ASBJ Research Group. However, the staff think the decision on whether to go down an Exposure Draft route or a Discussion Paper route should depend on the nature of the proposals being issued by the IASB. The staff think we should issue a Discussion Paper only if we think we need more information or more consultation before proposing changes (once we decide what we think those changes are likely to be) or think we are likely to uncover any significant new information during the public comment period.
18. The staff had initially planned to ask the IASB to discuss its views on the most appropriate due process document to work towards at this meeting. However the staff do not think the IASB should do this until:
 - (a) IASB members are satisfied they have enough information about the three topics in paragraph 4 to have this discussion. Some IASB members requested further information about what users of financial statements want to receive about goodwill and impairment.
 - (b) The IASB has considered the feedback from the ASAF meeting in December 2015.

Consequently, the staff propose to defer this discussion.

Proposed timetable

Expected date	Activity
November 2015	IASB meeting to discuss identification and measurement of intangible assets and consider the feedback we have heard so far about what users of financial statements want to receive about goodwill and impairment.
December 2015	ASAF meeting. IASB meeting to discuss feedback from ASAF.