STAFF PAPER

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Prepared for the Global Preparers Forum Meeting

Project	**Goodwill and impairment project**
Paper topic	Improvements to IAS 36 impairment requirements: Disclosures

CONTACT(S) Michelle Fisher mfisher@ifrs.org +44(0) 20 7246 6918

Objective of the session

1. The purpose of this session is to ask for input from the Global Preparers Forum (GPF) on developing disclosures about:
   (a) the key assumptions or targets supporting the purchase price paid for an acquisition; and
   (b) whether an acquisition has been successful in meeting those assumptions or targets.
2. In particular we would like input on:
   (a) what information would be both meaningful and possible to prepare; and
   (b) what practical issues and implications do we need to consider.

Background

3. In February 2015, on the basis of its findings during the Post-implementation Review (PIR) of IFRS 3 *Business Combinations*, the Board added a project on goodwill and impairment to its research agenda. As part of this project the Board is considering ways to improve the impairment requirements in IAS 36 *Impairment of Assets*.

Information about the Global Preparers Forum (GPF) is available at http://www.ifrs.org/The+organisation/Advisory+bodies/GPF/

4. The staff think there are two objectives for improving the impairment requirements:

   (a) Considering whether the impairment test can be made less burdensome for preparers without a loss of information for investors.

   (b) Consider whether better, more timely, information can be provided to investors without imposing costs on preparers that would exceed the benefits of the information to investors.

5. At this meeting we are specifically looking for feedback on one approach we are considering to address paragraph 4(b). However, we expect to seek your views on other issues at future meetings.

What are the staff considering?

6. Based on feedback we have received during the PIR and our investor outreach, investors appear to be particularly interested in assessing:

   (a) what management thought were the key drivers that justified the purchase price paid for an acquisition;

   (b) whether an acquisition has been successful; and

   (c) management's stewardship in relation to the acquisition.

7. Consequently the staff are currently considering the feasibility of a disclosure requirement in IFRS 3 or IAS 36 that would require entities to:

   (a) disclose the key performance assumptions or targets supporting the purchase price, and hence supporting the amount of goodwill recognised (the premium paid over the fair value of the identifiable net assets). For example, a key performance target might be an expected specified increase in sales or a level of cost savings for a product line as a result of the acquisition. The entity would also likely identify the periods over which it expects to achieve the target (for example an increase in revenue at 5 per cent per year for 3 years).

(b) disclose a basic comparison of actual performance of the acquisition against the key assumptions or targets for a period of time following the acquisition (for example an assessment at the end of each of the 3 years following an acquisition).

Would this disclosure add significant cost and/or complexity?

8. We have had feedback from preparers that the disclosure requirements in IFRS 3 and IAS 36 are already excessive. However, the staff think if we also consider ways to simplify the mechanics of the current impairment test and streamline the existing disclosures, adding this new disclosure may not lead to a net additional cost or complexity for preparers, while at the same time providing better information to users.

9. We had feedback from GPF members in June 2014 that it would be difficult to provide information on the subsequent performance of the business acquired, because the acquiree is generally integrated rapidly into the acquirer's operations. They also noted that the acquirer generally prepares plans and budgets for the entire operation/territory that will include the acquiree. However the staff note the following:

    (a) The fact that an acquiree is expected to be integrated would be expected to be considered in identifying the key performance targets, ie the key performance targets would relate to the plans and budgets for the parts of the business affected by the acquisition, rather than the acquiree.

    (b) Subsequent information can take many forms, from requiring detailed financial information/financial statements to disclosures about key financial indicators. The staff has limited its consideration to the latter.

What are your views?

Questions for GPF members
1) How straight-forward would it be to disclose the key performance assumptions or targets supporting the purchase price of an acquisition? How is this type of information currently reported internally? 2) What kind of comparison of actual performance of the acquisition against the key assumptions or targets could be provided in the year (or years), following the acquisition? How is this type of information currently monitored internally? 3) What practical implications would this disclosure have? 4) Do you have any other comments or suggestions about information that could be communicated to facilitate assessment of the success of an acquisition?