Consultation seeks to help investors assess how acquisitions are performing

Highlights

− Should goodwill amortisation be reintroduced?
− Should the goodwill impairment test be simplified – or otherwise improved?
− Should the acquirer disclose internal reporting metrics?
− Should identifiable intangible assets be recognised separately from goodwill?
− Have your say – Comment deadline is 31 December 2020

Increasingly, investors are calling for better information in financial statements to understand whether an acquisition of a business has been successful and whether the price paid was reasonable. Many have raised concerns that impairment losses on goodwill are recognised ‘too little, too late.’ In contrast, for many preparers, the impairment test is seen as complex, time-consuming and costly to perform.

The International Accounting Standards Board (the Board) has published a Discussion Paper (DP), Business Combinations – Disclosures, Goodwill and Impairment. It includes preliminary views based on the Board’s own research1 that explores:

− whether companies can provide better information about their business combinations without undue cost;
− whether the impairment test can be made more effective and less costly and complex; and
− whether to reintroduce goodwill amortisation.

The Board’s starting point was to consider whether a more effective goodwill impairment test would provide a timely signal about an acquisition’s performance – for example, by testing goodwill impairment directly (the current impairment model tests goodwill indirectly – the unit of account is the CGU2). Its preliminary view is that it is not feasible to design such a test at a reasonable cost.

Mike Metcalf
Partner
KPMG in the UK

“The question of whether goodwill amortisation should be reintroduced is one of the most contentious issues in financial reporting. The DP largely maintains the status quo and some of the simplifications it proposes would facilitate fewer impairments, which is difficult to reconcile with the concerns investors have raised. This is your chance to have your say.”

1. The Board started a research project on goodwill and impairment following its post-implementation review of IFRS 3 Business Combinations
2. Cash generating unit
Should goodwill amortisation be reintroduced?

There are concerns among users of financial statements that carrying amounts of goodwill may be overstated.

In response, the Board explored whether amortisation of goodwill should be reintroduced. Some see amortisation as a simple mechanism for reducing the risk of overstating goodwill, but others argue that goodwill is not a wasting asset with a finite useful life and that the impairment-only model provides more useful information.

Only a narrow majority of Board members believes that it should not reintroduce amortisation and should retain the impairment-only model. Therefore, the Board is interested to hear any new practical or conceptual arguments to take the debate forward.

Should the impairment test be simplified or improved?

In response to feedback from some preparers that the impairment test is complex, time-consuming and costly, the Board proposes:

- a relief from the mandatory annual quantitative impairment test for goodwill, indefinite-lived intangibles and intangibles not yet available for use, unless indicators of impairment exist; and
- simplifying the calculation of value in use (VIU) by removing certain restrictions.

Should the acquirer disclose internal reporting metrics?

In the DP, the Board explains that it is seeking to provide ‘better information’ to help investors to more effectively hold management to account for its decisions to acquire businesses. To achieve that aim, it considers that the acquirer should disclose the information that management uses to monitor acquisitions.

The Board is therefore proposing to expand the IFRS 3 Business Combinations disclosure requirements to include information on the objectives for a business acquisition and the internal reporting metrics used to monitor its subsequent performance.

However, given that this information may be commercially sensitive, difficult in some cases to produce and may include forward-looking information, the Board would welcome further feedback.

Should intangible assets be recognised separately?

Views are mixed on the usefulness of the current requirements to recognise the identifiable intangible assets acquired in a business combination separately from goodwill. One of the reasons to change the requirements would be to reduce the costs and complexity for preparers.

However, the Board is not proposing to change the requirements because it hasn’t seen persuasive evidence to warrant doing so.

Those wanting the Board to consider broader changes to accounting for intangible assets may do so via its 2020 agenda consultation, expected in H2 2020.

Have your say

The deadline for comments is 31 December 2020. The Board will consider the comments received before deciding whether to change any of its preliminary views and agreeing next steps.

We urge you to take this opportunity to give your feedback on the Board’s DP. This could be your last chance to have your say on one of financial reporting’s most contentious issues.

See our table summarising the Board’s preliminary views.

“Investors want financial statements to show how successful an acquisition has been. Yet the objective of the impairment test is to ensure that the carrying amount of goodwill and other assets within the CGU is recoverable, not to inform investors whether an acquisition has been successful. Investors should find the proposed disclosure requirements on subsequent performance more fit for this purpose.”

Eiichi Fujita
KPMG’s global business combinations and consolidations

Eiichi Fujita
Head of DPP Accounting
KPMG AZSA LLC

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# Summary of Board’s preliminary views

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<thead>
<tr>
<th>Key area</th>
<th>What’s the issue?</th>
<th>Board’s preliminary views</th>
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</thead>
<tbody>
<tr>
<td><strong>Impairment of goodwill and indefinite-lived intangibles</strong></td>
<td>Some users believe the current impairment test for goodwill does not provide a timely signal about whether an acquisition’s performance is meeting expectations. Some preparers find the current impairment test complex, time-consuming and costly to perform.</td>
<td>Unable to design an impairment test that is more effective.</td>
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<td>Will not reintroduce goodwill amortisation and remains open to new arguments/evidence.</td>
<td>Proposes relief from the mandatory annual quantitative impairment test, unless indicators of impairment exist.</td>
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<td>Proposes simplifying the calculation of VIU by:</td>
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<td>− removing the restriction on including cash flows from a future uncommitted restructuring or from improving an asset’s performance; and</td>
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<td>− allowing the use of post-tax discount rates.</td>
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<td>These proposals apply to all assets and cash generating units (CGUs), not just to CGUs containing goodwill.</td>
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<td><strong>Presentation and disclosures</strong></td>
<td>Some users want better information on how an acquisition is performing. Some preparers find the IFRS 3 Business Combinations disclosures excessive.</td>
<td>Proposes revising the disclosure requirements in IFRS 3 to include:</td>
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<td>− replacing the disclosure of primary reasons for a business combination (BC) with the strategic rationale for undertaking the BC and management (CODM)1) objectives for that BC;</td>
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<td>− adding a new disclosure requirement of the metrics that management (CODM) will use to monitor whether the BC’s objectives are being met in the year of acquisition and subsequently;</td>
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<td>− adding disclosure objectives to provide better information for investors − e.g. to help them understand the benefits of an acquisition that the company considered when determining the purchase price; and</td>
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<td>− making targeted improvements to the disclosure requirements in IFRS 3.</td>
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<td>Proposes a new requirement to present total equity before goodwill on the balance sheet.</td>
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<td><strong>Separate recognition of intangible assets</strong></td>
<td>Some users have mixed views on the usefulness of recognising intangibles separately from goodwill. Some preparers find it difficult to identify some intangible assets and find valuation methods complex and subjective.</td>
<td>Proposes continuing to require intangible assets to be recognised separately from goodwill.</td>
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