Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Goodwill and Impairment**	**Meeting:**	M178
Topic:	**Consider Feedback on the Discussion Paper and decide on issues for submission to IASB**	**Agenda Item:**	6.1
		Date:	26 October 2020
Contact(s):	Kim Carney kcarney@aasb.gov.au Ao Li ali@aasb.gov.au Meina Rose mrose@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	High Medium Discussion Paper Outreach

OBJECTIVE OF THIS PAPER

1 The objective of this agenda item is:

(a) to **inform** the Board on the outcomes of targeted outreach, further UAC feedback and comment letters received on AASB Discussion Paper *Business Combinations–Disclosures, Goodwill and Impairment*;

(b) for the Board to **consider** staff recommendations in relation to key issues and tentative decisions made at the September meeting; and

(c) to **confirm** next steps to finalise the AASB's comment letter to the IASB.

ATTACHMENTS

Agenda Paper 6.2	Working draft comment letter to IASB on Discussion Paper/2020/1
Agenda Paper 6.3	Collated comment letters received on the AASB Discussion Paper
Agenda Paper 6.4	Detailed feedback from further targeted outreach
Agenda Paper 6.5	AASB Discussion Paper *Business Combinations–Disclosures, Goodwill and Impairment* [SUPPORTING DOCUMENTS FOLDER]
Agenda Paper 6.6	AASB Research Report 9 *Perspectives on IAS 36: A case for Standard-Setting* (March 2019) [SUPPORTING DOCUMENTS FOLDER]
Agenda Paper 6.7	Preliminary feedback from CAANZ staff [SUPPORTING DOCUMENTS FOLDER, BOARD ONLY]

STRUCTURE

2 This Staff Paper is set out as follows:

(a) Background;

(b) Additional outreach undertaken;

(c) Summary of recommendations and questions to the Board;

(d) Key issues for discussion at this meeting;

(e) Other issues for consideration at this meeting;

(f) Draft comment letter and next steps; and

(g) Appendix A – Summary of Discussion Paper Questions.

BACKGROUND

3 The IASB issued Discussion Paper DP/2020/1 *Business Combinations–Disclosures, Goodwill and Impairment* in March 2020 and the AASB re-issued the Discussion Paper domestically in the same month.

4 The objective of the Discussion Paper is to explore whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions they make. Better information should help investors assess the performance of companies that have made acquisitions and hold a company's management to account for acquisition decisions.

5 The Board discussed feedback received through various outreach, including webinars, the Business Combinations/Equity Method Project Advisory Panel and the User Advisory Committee at its September 2020 meeting.

6 At the September 2020 the Board made the following tentative decisions regarding its feedback to the IASB. The Board also decided to respond only to selected questions in the Discussion Paper.

(a) express general support for retaining the impairment-only approach to accounting for goodwill, subject to the impairment test being improved and further guidance being provided;

(b) do not support the requirement to disclose information in the financial statements about the subsequent performance of acquisitions, including the metrics used by the chief operating decision maker (CODM) to monitor those acquisitions;

(c) do not support a requirement to present total equity excluding goodwill on the face of the balance sheet.

(d) staff to undertake further outreach in relation to:

(i) whether, and in what circumstances entities are likely to utilise the proposed relief from being required to perform a quantitative impairment test annually, in the absence of impairment indicators;

(ii) the concern that simplifying the Value in Use (ViU) calculation (and removing the restriction on cash flows from uncommitted future restructurings and other asset enhancements) may blur the distinction between ViU and fair value less costs of disposal (FVLCD); and

(iii) the importance of consistency in the subsequent performance disclosures (in the event the IASB proceeds with requiring them in the financial statements).

The tentative decisions are reflected in the working draft of the comment letter attached as Agenda Paper 6.2, updated where necessary to reflect staff recommendations in this paper following additional stakeholder outreach.

ADDITIONAL OUTREACH UNDERTAKEN

7 Since the September meeting staff have held the following additional outreach on the Discussion Paper. The analysis of key issues in this paper reflects feedback received from this outreach:

Category	For summary of feedback see:	Date
User Advisory Committee (UAC)	Agenda Paper 6.4	1 October 2020
Targeted outreach	Agenda Paper 6.4 Additional targeted outreach was conducted with one user, three preparers (from large listed	Various

	entities), Project Advisory Panel members and other stakeholders[1].	
Comment letters received	Agenda Paper 6.3	N/A
Informal feedback received	Agenda Paper 6.6 (Supporting document folder, Board only)	

SUMMARY OF RECOMMENDATIONS AND QUESTIONS TO THE BOARD

	Staff recommendation and question to the Board	Consistent with previous tentative Board decisions?
Question 1:	Key Issue 1 - Amortisation of goodwill On balance, staff therefore recommend continuing to support the IASB's proposal of retaining the impairment-only model, subject to the impairment test being improved and further guidance being provided on the allocation of goodwill to CGUs as tentatively agreed at the September meeting. This is included in the response to Question 7 of the Discussion Paper.	Consistent
Question 2(a):	Key Issue 2(a) - Location of the subsequent performance disclosures Does the Board agree with the staff recommendation that the Board confirm its tentative decision at the September meeting to not support the requirement to disclose information about the subsequent performance of acquisitions, including the metrics used by the CODM to monitor those acquisitions, in the financial statements? This is addressed in the response to Question 2(b) of the Discussion Paper.	Consistent
Question 2(b):	Key Issue 2(b) - Consistency of subsequent performance disclosures Does the Board agree with the staff recommendation to suggest the IASB: a) perform further research to understand whether consistency is a significant concern, and if so whether the IFRS 8 approach may be warranted; and b) include additional guidance on situations where it is reasonable to change the metrics used by the CODM to address the risk changes in the disclosed metrics may mask poor performance, which may not be addressed by disclose the change and the reasons why? This is addressed in the response to Question 2(b) of the Discussion Paper.	N/A – the Board requested more information before making any decisions.

1 Other stakeholders include auditors, accountants, technical advisors, regulators, academics and professional bodies.

	Staff recommendation and question to the Board	Consistent with previous tentative Board decisions?
Question 3:	Key Issue 3 - Concerns about quantification and auditability of disclosures Does the Board agree with the staff recommendation: a) that the IASB should discuss the auditability of the proposed synergy disclosures with the IAASB; and b) that the Board agree with the IASB proposals to require disclosures about expected synergies at the date of acquisition in the financial statements? This is addressed in the response to Question 4 of the Discussion Paper.	Consistent N/A – the Board did not make any decisions on this issue.
Question 4:	Key Issue 4 - Disclosure of pro-forma information Does the Board agree with the staff recommendation to agree with the IASB proposals to retain the existing pro-forma disclosures, but recommend not supporting introduction of new pro-forma cash flow disclosures? This is addressed in the response to Question 5 of the Discussion Paper.	Inconsistent in part – the Board previously decided not to support pro-forma cash flow disclosures, and to suggest further research to understand whether the existing pro-forma disclosures are needed.
Question 5:	Key Issue 5 - Removal of the annual impairment test a) Which view does the Board prefer: View 1: The Board does not support the proposal to remove the annual impairment test requirement; or View 2: The Board supports the proposal to remove annual impairment test requirement only if the indicator approach can be made more robust and supplemented with additional disclosures? b) Does the Board agree with the staff recommendation to suggest recommending the IASB conduct further research on whether the ability to roll-forward prior year impairment tests could be a preferred solution to removing the annual impairment test altogether. This is addressed in the response to Question 9 of the Discussion Paper.	Inconsistent in part – the Board previously decided to support the proposal to remove the annual impairment test requirement. N/A – the Board has not previously discussed this issue.
Question 6:	Key Issue 6 - Allowing the reversal of goodwill impairments	N/A – the Board has not previously

	Staff recommendation and question to the Board	Consistent with previous tentative Board decisions?
	Does the Board agree with the staff recommendation to suggest recommending the IASB perform additional research to understand whether allowing the reversal of previously recognised goodwill impairments could address concerns about impairment losses being recognised 'too little, too late'? This is addressed in the response to Question 9 of the Discussion Paper.	discussed this issue.
Question 7:	Key Issue 7 - The distinction between ViU and FVLCD Does the agree with the staff recommendation to: a) suggest the IASB undertake further research regarding whether moving to one impairment model rather than two would remove some of the judgement and could also address the concerns about too much optimism used in performing ViU calculations; and	Inconsistent – the Board previously decided that both VIU and FVLCD remain valid options.
	b) support the proposed changes in Discussion Paper to simplify the impairment test by: (i) permitting the use of either pre- or post-tax discount rates, but to also suggest the IASB provide implementation guidance in relation to the use of post-tax discount rates and the inclusion of other items such as lease liabilities and asset retirement obligations; and	N/A – the Board requested more information before making any decisions.
	(ii) removing the restriction on cash flows from uncommitted future restructurings and other asset enhancement, but to also suggest the IASB provides implementation guidance on when it is reasonable and supportable to include such cash flows? This is addressed in the response to Question 10 of the Discussion Paper.	Consistent
Question 8:	Other issue a - Separate recognition of identifiable intangible assets Does the Board agree with the staff recommendation that the Board should not comment on the issue of the separate recognition of identifiable intangible assets as views were mixed and there is no compelling evidence to consider changing the existing requirements?	N/A – the Board has not previously discussed this issue.
Question 9:	Other issue b - Granularity of acquired assets and liabilities Does the Board agree with the staff recommendation that despite the users' desire for additional information requiring disclosure of acquired assets and liabilities at a level other than 'classes' would	Consistent

	Staff recommendation and question to the Board	Consistent with previous tentative Board decisions?
	be inconsistent with the principles used in many Standards so the Board should not raise this issue in the submission; and This is addressed in the response to Question 4 of the Discussion Paper.	
Question 10:	As outlined in paragraph 29, the AASB's submission to the IASB will not respond to all questions in the Discussion Paper. Are there any issues in addition to those noted in Appendix A that Board members would like incorporated into the comment letter?	N/A
Question 11:	Does the Board agree with the staff recommendation in paragraph 30 to form a sub-committee of Board members to finalise and approve the comment letter out-of-session?	N/A

KEY ISSUES FOR DISCUSSION AT THIS MEETING

Key Issue 1 -Amortisation of goodwill

8 At the September meeting the Board tentatively decided to express general support for retaining the impairment-only approach to accounting for goodwill, subject to the impairment test being improved and further guidance being provided. In particular, the Board noted that goodwill is not always allocated to the lowest level at which it is being monitored and therefore is not tested for impairment at the appropriate level. This is often due to difficulties in understanding and applying the requirements of IAS 36 *Impairment of Assets*. Refer to Issue 3.1 of Agenda Paper 4.1 for the September meeting for additional discussion.

9 Below is a summary of feedback received through additional outreach activities and comment letters.

Feedback	**Interaction with the Board's tentative decisions**
UTS – Amortisation **should not** be reintroduced. While the submission states that amortisation of goodwill could encourage the recognition of more identifiable intangible assets and therefore result in a lower goodwill balance, staff have confirmed with the stakeholder that this does not mean that they support the reintroduction of goodwill amortisation. Instead, the stakeholder queries the informative value of goodwill in general. The stakeholder is further concerned about issues with asset impairment generally.	Consistent.
AGL – Amortisation **should** be reintroduced, in conjunction with the annual impairment test. • The economic benefits of an acquisition are usually expected to be finite. Amortisation would provide users with additional information about the timeframe of the expected realisation of the benefits of the acquisition. • An impairment does not always indicate that the acquisition did not meet original objectives because the return on an investment is usually finite. • Amortisation reduces the potential for unexpected impairments and the effect of shielding. It will not affect analysts due to its non-cash nature. • Amortisation is consistent with the approach applied to other assets (e.g. property, plant and equipment and intangibles) and should reflect the consumption of economic benefits over time (e.g. as synergies from an	Inconsistent. The Board tentatively decided to express general support for retaining the impairment-only approach to, subject to the impairment test being improved.

Feedback	Interaction with the Board's tentative decisions
acquisition are realised). However, if there is no foreseeable limit to the period over which the goodwill is expected to generate net cash inflows for the entity, there is scope for an entity not to amortise the goodwill.	
UAC: One UAC member suggested as an alternative view that impairments should not be recognised at all. Goodwill is an acquired asset so an option could be to state it at historical cost. While this would affect ratios (e.g. ROIC and ROE), it might help hold management to account for previous acquisition decisions.	Inconsistent. Not recognising an impairment loss if one is indicated would result in the entities assets being overstated and the financial statements would therefore not provide a faithful representation of the entity's financial performance and financial position.
Other – Users: No comment.	N/A
Preparers (large listed entities) – Two preparers agreed that amortisation **should not** be reintroduced, however one preparer expressed support for the amortisation model. • Amortisation, by definition, is only appropriate for assets whose value diminishes systematically across a definite period. It does not fit the nature of goodwill. The impairment model provides information on the subsequent performance of acquisitions, including signalling bad investment decisions. If amortisation is reintroduced, useful information may be hidden, with impairment losses not being recognised due to 'routine' amortisation charges being recognised instead. • The one preparer who supported amortisation indicated that in their view if you are unable to identify what you have paid for, then 'it' cannot have perpetual value.	Inconsistent, in part.
Other stakeholders[2] – Amortisation **should** be reintroduced This group of stakeholders showed strong support for the reintroduction of the amortisation model.	Inconsistent. The Board tentatively decided to express general support for retaining the impairment-only approach to, subject to the impairment test being improved.

[2] Other stakeholders include auditors, accountants, technical advisors, regulators, academics and professional bodies.

<table>
<tr><th>Feedback</th><th>Interaction with the Board’s tentative decisions</th></tr>
<tr><td>
They agreed that while the amortisation model is not without judgement (e.g. determining the amortisation period), the impairment-only approach is arguably just as judgemental (e.g. model inputs and assumptions).
They felt that routine amortisation would reduce the subjectivity of management judgements and also reduce the risk for auditors.
Preparing and auditing impairment models can be costly.
It would be a rare case for goodwill to have an infinite life and goodwill is not that different from other long-term assets. For this reason, goodwill should not be accounted for differently.
Re-introducing amortisation of goodwill may also provide an incentive for entities to recognise other intangible assets such as brand names separately.
Management may be reluctant to recognise impairment losses within their tenure as it could be viewed as a sign of poor management ability/decision making.
</td><td></td></tr>
<tr><td>CAANZ staff:

Preliminary feedback from CAANZ staff suggested mixed views. Some stakeholder support for the impairment-only model as it provides useful information. Other stakeholders support the reintroduction of amortisation as it targets goodwill directly and makes the impairment test less costly to apply.

Some feedback also suggested a hybrid model, such as impairment only for the first few years, followed by amortisation.</td><td>Inconsistent, in part, as the Board tentatively decided to express general support for retaining the impairment-only approach to, subject to the impairment test being improved.

They hybrid model is contemplated in paragraph 3.100 of the Discussion Paper. Ultimately the IASB concluded that while a hybrid model may be advantageous as an impairment test is performed when the information from it is most helpful (i.e. in the first few years after an acquisition), the time period selected for the impairment-only approach may not be appropriate for all companies and additional guidance may also be required.</td></tr>
<tr><td colspan="2">Staff analysis and recommendation:

Views from stakeholders were mixed.

Stakeholders that expressed strong support for the reintroduction of amortisation did not provide any new practical or conceptual arguments that were not already considered in the IASB’s discussion paper or by the AASB at the previous discussion in September (see Agenda Paper 4.1 - Issue 3.1). In particular in</td></tr>
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Feedback	Interaction with the Board's tentative decisions
relation to the argument that goodwill has a finite life (i.e. is a wasting asset), staff note that there are equally convincing arguments for the opposite view. For example, a paper issued by the IVSC[3] demonstrates that most of the common components of goodwill are not diminishing over time and that this is also consistent with how businesses are valued and priced for transactions. However, staff also note that support for amortisation appeared stronger for smaller to medium entities (SME) and firms, with larger preparers and firms mostly supportive of the impairment-only model. Considering the arguments for and against amortisation raised in the discussion paper and by stakeholders, staff still consider the impairment model more appropriate for publicly accountable entities, being those that apply full IFRS. **On balance, staff therefore recommend continuing to support the IASB's proposal of retaining the impairment-only model, subject to the impairment test being improved and further guidance being provided on the allocation of goodwill to CGUs as tentatively agreed at the September meeting.** **See Question 1 to the Board.**	

Key Issue 2 -Subsequent performance disclosures

10 At the September meeting the Board tentatively decided:

(a) not to support the requirement to disclose information about the subsequent performance of acquisitions, including the metrics used by the CODM to monitor those acquisitions in the financial statements. The Board considered that this information may be more appropriately included outside the financial statements in management commentary; and

(b) in relation to concerns raised by users about the period-to-period consistency of the subsequent performance disclosures, staff would seek feedback from preparers to understand whether an approach consistent with the approach in IFRS 8 *Operating Segments* is possible at reasonable cost before recommending whether or not this should be suggested to the IASB.

11 Below is a summary of feedback received through additional outreach activities and comment letters.

Feedback	Interaction with the Board's tentative decisions
(a) Location of the disclosures *– this was previously discussed by the Board in September.*	
UTS: No comment.	N/A
AGL: No comment.	N/A

3 IVSC Perspectives Paper: Business Valuation – *Is Goodwill a Wasting Asset*

Feedback	**Interaction with the Board's tentative decisions**
UAC: UAC members did not express any concerns with the Board's tentative decision not to support the subsequent performance disclosures. Overall UAC members agreed that while they are interested in information about subsequent performance, the information doesn't necessarily need to be in the financial statements. Users remain concerned about management's ability to manipulate outcomes if they are selecting the disclosed metrics. So, there does however need to be more rigour around those disclosures. Feedback also suggested that some (but not all) companies currently provide similar information on a voluntary basis, and that it is already often disclosed in either management commentary or investor presentations.	Consistent.
Other – Users: While sceptical about whether the proposed disclosures will add value, if the information is required, and is to have any value it should be disclosed in the financial statements , with one user commenting that this was because it will be subject to audit.	Inconsistent, in part, as the Board tentatively decided that the information should not be disclosed in the Financial Statements.
Preparers (large listed entities): Preparers do not support disclosure of the metrics in the financial statements. • There was concern that requiring disclosure of CODM metrics in the financial statements would drive internal reporting (e.g. CODM monitoring and internal reporting may change to achieve financial reporting disclosure outcomes) consistent with what occurred when IFRS 8/AASB 8 were introduced. • Additional disclosure about acquisitions and subsequent performance could be better addressed in the management commentary.	Consistent. Preparers were concerned about including the disclosures in the financial statements and were more comfortable with this information being in management commentary.

Feedback	Interaction with the Board's tentative decisions
• This approach may create additional work for preparers when acquisition dates and financial reporting dates do not align, and additional analysis is required only for financial reporting disclosure purposes.	
Other stakeholders[4]: No comment	N/A
CAANZ staff: Preliminary feedback from CAANZ staff suggests there is overall support for the disclosure proposals, however there are some concerns. For example, while some of the information is possibly already disclosed in management commentary, stakeholders are concerned about having to disclose more detailed information which may be commercially sensitive and possibly difficult to obtain (in particular if the acquired business is fully integrated with the existing operations).	Inconsistent.
Staff analysis and recommendation: The feedback from subsequent outreach was generally consistent with the Board's tentative decision, that is, that the disclosures should not be included in the financial statements. For this reason, **staff recommend the Board confirm its tentative decision at the September meeting** to not support the requirement to disclose information about the subsequent performance of acquisitions, including the metrics used by the CODM to monitor those acquisitions, in the financial statements. **See Question 2(a) to the Board.**	

Feedback	Interaction with the Board's tentative decisions
(b) Consistency of subsequent performance disclosures *– this was previously discussed by the Board in September. Refer to Issue 2.1(a) of Agenda Paper 4.1.*	
UTS: No comment.	N/A
AGL: No comment.	N/A

4 Other stakeholders include auditors, accountants, technical advisors, regulators, academics and professional bodies.

Feedback	Interaction with the Board's tentative decisions
UAC: At the July UAC meeting members expressed concerns about a lack of period-to-period consistency of the disclosures where the CODM changes the metrics used to monitor performance. However, when staff discussed this matter with the UAC again at its October meeting, UAC members confirmed that they do not expect the subsequent performance disclosures to be very useful to them, and on that basis consistency of the information is not a major concern to them. They also agreed that there doesn't necessarily need to be consistency between entities or year-on year, however, a consistent level of required disclosure would be helpful.	N/A – the Board requested more information before making any decisions.
Other – Users: One user indicated that while the disclosed metrics may change from period-to-period, the fact that the metrics have been changed would provide useful information (e.g. the former metric was presumably not looking as favourable as it once did). Another user felt that consistency is important where company's don't have high levels of voluntary disclosure.	N/A – the Board requested more information before making any decisions.
Preparers (large listed entities): One preparer thought that if the metrics used by the CODM to monitor an acquisition were changed, an approach similar to that used in IFRS 8/AASB 8 should be possible.	N/A – the Board requested more information before making any decisions.
Other stakeholders[5]: No comment.	N/A
CAANZ staff:	N/A – the Board requested more information before making any decisions.

[5] Other stakeholders include auditors, accountants, technical advisors, regulators, academics and professional bodies.

Feedback	Interaction with the Board's tentative decisions
Preliminary feedback from CAANZ staff indicated that there is concerns over the consistency of the disclosure, especially where entities change their metrics. There should be guidance similar to that in IFRS 8/AASB 8 regarding the presentation of comparative information where metrics have been changed.	

Staff analysis and recommendation:

While feedback from users now indicates that consistency of the information is not so much of an issue to them as the information is generally of not much use, feedback from other stakeholder indicates that consistency of the disclosures is a concern. While staff were unable to obtain detailed information about whether the IFRS 8 approach (restate prior period information or disclose information for both old and metrics in the current period) would be possible at a reasonable cost, one preparer did indicate that it should be possible.

For this reason, **staff recommend suggesting the IASB perform further outreach to understand whether consistency is a significant concern, and if so whether the IFRS 8 approach may be warranted**.

In relation to the previously considered feedback about the risk that changes in the disclosed metrics may mask the poor performance of an acquisition that may not be addressed by disclosing the change and the reasons for the change (see Agenda Paper 4.1 - Issue 2.1(a)), **staff continue to recommend suggesting the IASB includes additional guidance on situations where it is reasonable to change the metrics**. This could be, for example, in situations when an entity has undergone a major restructure, or when a metric is related to earnings due to an earnout agreement, at the point the earnout target is either met or missed.

See Question 2(b) to the Board.

Key Issue 3 - Concerns about quantification and auditability of disclosures

12 At the September meeting the Board discussed the proposals to require disclosure of information about the synergies expected from the acquisition as at the date of acquisition, including when they are expected to be realised, the estimated amount or range of amounts of the synergies and the expected cost or range of costs to achieve those synergies. This disclosure would provide investors with a better understanding of the benefits management expected when agreeing on the acquisition price.

13 The Board did not share concerns about sensitivity quantification and auditability of synergy disclosures, however tentatively decided to recommend the IASB discuss the auditability of the proposed disclosures with the International Auditing and Assurance Standards Board (IAASB). Refer to Key Issue 2.2 of Agenda Paper 4.1 for the September meeting for additional discussion.

14 In addition to stakeholder concerns about the auditability of synergy disclosures, subsequent to the September meeting, additional feedback has been received indicating there is also some concern about the auditability of the subsequent performance disclosures discussed in Key Issue 2 - above.

15 Below is a summary of feedback received through additional outreach activities and comment letters.

Feedback	Interaction with the Board's tentative decisions
UTS: No comment.	N/A
AGL: Whilst of the opinion that financial metrics may be monitored and audited, the non-financial nature of some metrics used by the CODM may significantly extend the scope of assurance requirements and not align with current auditing practice. The feasibility of auditing such metrics also needs to be considered.	Inconsistent. While the Board did not share the concerns about the auditability of synergy disclosures, it tentatively decided to recommend that the IASB discuss the auditability of the proposed disclosures with the IAASB. Refer to Key Issue 2.2(c) of Agenda Paper 4.1 for the September meeting.
AGL: No comment.	N/A
UAC: Consistent with the feedback received at the July UAC meeting, UAC members remain concerned about the quantitative measure of expected **synergies** and the verifiability and auditability of the disclosures due to the judgements and estimates made about future developments. This applies in particular to the quantitative measure of expected synergies where it is open to judgement as to which costs to include or exclude. Some UAC members asked whether the auditor could verify the process undertaken by management to quantify the synergies at the date of acquisition rather than the actual forward-looking information disclosed.	Inconsistent. While the Board did not share the concerns about the quantification and auditability of synergy disclosures, it tentatively decided to recommend that the IASB discuss the auditability of the proposed disclosures with the IAASB. Refer to Key Issue 2.2(c) and 2.2(b) of Agenda Paper 4.1 for the September meeting.
Other - User: No comment.	N/A
Preparers (large listed entities): No Comment.	N/A
Other stakeholders[6]: There appears to be a shift in the way acquisitions happen with management's strategy, plan, and other unidentifiable assets becoming more relevant. This	Inconsistent. The Board had no concerns about the ability to quantify expected synergies. Refer to Key Issue 2.2(b) of Agenda Paper 4.1 for the September meeting

6 Other stakeholders include auditors, accountants, technical advisors, regulators, academics and professional bodies.

Feedback	Interaction with the Board's tentative decisions
applies in particular to businesses involving eCommerce, which makes it a challenge to quantify and/or measure **synergies**.	
CAANZ staff: Preliminary feedback is that the ability to audit the proposed disclosures would depend on management maintaining sufficient appropriate documentation for the acquisitions and systems that can track the performance of the acquired business. Forward looking information relies on management judgement, especially qualitative metrics, and could present auditability challenges.	Inconsistent. While the Board did not share the concerns about the auditability of synergy or the other proposed disclosures, it tentatively decided to recommend that the IASB discuss the auditability of the proposed disclosures with the IAASB. Refer to Key Issue 2.2(c) of Agenda Paper 4.1 for the September meeting.

Staff analysis and recommendation:

While feedback received from subsequent outreach is inconsistent with the Board's tentative decisions from the September meeting in relation to the auditability and quantification of the synergy disclosures, the view of staff has not changed. However, staff note that concerns about auditability have now also been raised in relation to the subsequent performance disclosures.

For this reason, **staff recommend the IASB discuss the auditability of the proposed subsequent performance and synergy disclosures with the IAASB**.

Staff would further like to confirm that the Board agrees that the proposed synergy disclosures should be included in the financial statements, as these are not management-selected metrics. In particular staff note that similar information is already required by paragraph B64(e) of IFRS 3 which requires an entity to disclose a "a qualitative description of the factors that make up the goodwill recognised, such as expected synergies …". The proposed disclosures would just provide more information about the nature, timing and amount of expected synergies. As similar information is already required by IFRS 3, staff do not consider that the Board's concerns relating to the subsequent performance disclosures being included in the financial statements apply to these proposed requirements.

For this reason, staff recommend the Board **agree with the IASB proposals to require disclosures about expected synergies at the date of acquisition in the financial statements.**

See Question 3 to the Board.

Key Issue 4 - Disclosure of pro-forma information

16 At the September meeting the Board tentatively decided to suggest that the IASB do not require disclosure of pro-forma cash flows contributed by the acquired business based on the initial feedback received. The Board also tentatively decided to recommend the IASB conduct further research to understand whether it is necessary to retain the existing requirements in IFRS 3.B64(q) if the IASB proceeds to introduce the subsequent performance disclosures. Refer to Key Issue 2.3(a) of Agenda Paper 4.1 for the September meeting.

17 Below is a summary of feedback received through additional outreach activities and comment letters.

Feedback	Interaction with the Board's tentative decisions
UTS: No comment.	N/A
AGL: No comment.	N/A
UAC: Feedback from the July UAC meeting suggested that the current disclosures regarding profit contribution are often not too useful as they can be quite arbitrary and judgemental. The disclosure of revenue contribution however can be useful, when it is disclosed, which is not always the case. Following the Board's tentative decision not to support the subsequent performance disclosures, staff discussed this matter again with the UAC at its October meeting. At this meeting, UAC members indicated that both the existing and proposed new pro-forma disclosures should be required by entities regardless of whether the subsequent performance disclosures will be required in the financial statements. While the information currently required by AASB 3 may be flawed and incomplete, it does provide a baseline for users to judge future performance.	Inconsistent. Feedback suggests that while the existing pro-forma disclosures may be flawed, the disclosure of both the existing and proposed new pro-forma information is useful and should therefore be required.
Other – Users: One user indicated that disclosure of pro-forma revenue is very useful as it the least 'flexible' number. However, pro-forma cash flow information is likely to be subject to too much manipulation to be useful. For example, management may be able to use acquisition adjustments for working capital to shift cash flows between operating and investing cash flows (e.g. acquiring a business with high receivables and low payables which therefore increases cash flows from operations, however is paid for through investing cash flows as part of the acquisition deal). Another user agreed with retaining the pro-forma disclosures, as they are a reasonable "guide" to the combined performance. They also suggested that pro-forma cash flow information would be useful, but was not essential.	Consistent, in part. The disclosure of pro-forma cash flow information is unlikely to be useful and would be reviewed with scepticism, however the pro-forma revenue information is useful and should be required.

Feedback	Interaction with the Board's tentative decisions
Preparers (large listed entities): No comment.	N/A
Other stakeholders[7]: No comment	N/A
CAANZ staff: No comment.	N/A
Staff analysis and recommendation: Notwithstanding that the pro-forma information may be flawed, as further feedback from users now suggests that at least some of the existing pro-forma information is useful, **staff recommend agreeing with the IASB proposals to retain the existing pro-forma disclosures**. When considering feedback in relation to the proposed new pro-forma disclosures, views are mixed. However as the majority of feedback confirms that the pro-forma cash flow information would not be overly useful, **staff recommend not supporting introduction of new pro-forma cash flow disclosures**. **See Question 4 to the Board.**	

Key Issue 5 - Removal of the annual impairment test

18 At the September meeting the Board tentatively decided to support removing the requirement to perform an annual quantitative impairment test but to suggest requiring disclosure of the fact that an impairment test has not been performed and the reasons why. Refer to Key Issue 4.1(a) of Agenda Paper 4.1 for the September meeting. However, the Board also instructed staff to seek feedback from preparers about the cost savings should the impairment test not be performed annually.

19 Following the September meeting, staff note that IASB staff have heard feedback in their outreach which suggests that relaxing the ability to roll-forward impairment tests from prior years may be helpful for preparers. While paragraph 99 of the IAS 36 allows entities to use the most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit to which goodwill has been allocated for the impairment test in the current year when certain criteria are met, stakeholders have noted that it can be difficult to meet these criteria. Relaxing the ability to roll-forward impairment tests may reduce the cost of compliance for preparers. With this in mind, AASB staff consulted Australian preparers for their feedback on this issue.

20 Below is a summary of feedback received through additional outreach activities and comment letters.

[7] Other stakeholders include auditors, accountants, technical advisors, regulators, academics and professional bodies.

Feedback	Interaction with the Board's tentative decisions
UTS: No comment.	N/A
AGL: No comment.	N/A
UAC: UAC members noted that the disclosure of impairment test assumptions is important information and that they would be concerned if this information was no longer disclosed as a consequence of the removal of the annual goodwill impairment test. UAC members want to see the key assumptions used in the impairment test and how they have changed, so they can make their own independent assessment of the entity. One member suggested that an alternative approach to compensate for this lost information may be to require disclosures along the lines of "the assumptions used at the date of acquisition continue to apply" or "performance continues to exceed acquisition date expectations". This approach would be better than no disclosures at all.	Consistent, in part. UAC members do not have concerns about the removal of the annual quantitative impairment test, but they are concerned about the loss of information about key assumptions that will occur if the test is not conducted.
Other –Users: No comment.	N/A
Preparers (large listed entities) – Do not support the removal of the annual impairment test. • They would most likely continue to perform an impairment test annually as it forms part of how they run their business. • Performing the annual impairment test is not overly onerous, they generally roll-forward their calculations where possible and just update the assumptions. • An indicator approach is not supported as entities would still need to look at forecasts and performance against trends to determine whether there is a need to perform the test. • The annual impairment test can also provide valuable information in future periods, to analyse where things have gone wrong.	Inconsistent. The large preparers indicated that performing an annual impairment test is an important part of 'running the business' and they would most likely perform the test annually even if they weren't required to do so. While the process is less time consuming for aspects of the business where no impairment is likely to occur, the time spent on those 'close call' areas is important.

Feedback	Interaction with the Board's tentative decisions
Other stakeholders[8]: • In addition to supporting the reintroduction of amortisation (refer to Key Issue 1 - for discussion), some auditors noted that they do not like the indicator assessment because the presence of impairment indicators is always a difficult discussion with clients. If an impairment assessment is dependent on the presence of indicators it will increase the risk to auditors. • As goodwill is inherently more likely to be overstated not performing an annual impairment test would increase the risk for auditors. In particular in close-call situations auditors may require additional evidence from the client that supports the carrying amount of the goodwill and the assertion that there is no impairment. Either case means there are likely to be minimal cost savings for entities who elect not to perform an annual quantitative impairment test. This is particularly relevant to SME entities and smaller listed entities.	Inconsistent. Removing the annual impairment test will increase the risk for auditors and may not save costs for entities that take advantage of the relief as a quantitative impairment test may still be required by auditors in order for them to satisfy their obligations under auditing standards.
CAANZ staff: Preliminary feedback from CAANZ staff suggested mixed views. • Removing the annual impairment test would be helpful particularly for SMEs by reducing cost and complexity. • If an indicator based approach is adopted specific goodwill impairment indicators will be needed. • Conversely, if goodwill is not amortised, the annual quantitative impairment test should be retained in order to get the most robust outcome. • Relaxing the requirements about when a prior year impairment test can be rolled forward would also be helpful.	Inconsistent. There was some support for retaining the annual impairment test requirement particularly if goodwill is not amortised.
Staff analysis and recommendation:	

[8] Other stakeholders include auditors, accountants, technical advisors, regulators, academics and professional bodies.

Feedback	Interaction with the Board's tentative decisions
Staff note that the Board tentatively decided to support removing the annual impairment test in favour of an indicator based approach at the September meeting. The Board agreed that while this approach may reduce the robustness of the impairment test, an indicator based approach may be more commercially sensible by only requiring an entity to perform a quantitative impairment test where there is a plausible indication that the CGU to which goodwill or an intangible asset with an indefinite life is allocated is impaired (i.e. in the absence of an impairment indicator, an impairment test is not required). To address stakeholder concerns about a loss of information where an entity does not perform an impairment test, the Board tentatively agreed to suggest that entities should be required to explicitly disclose that they have not performed an impairment test and the reasons why. Feedback from additional outreach confirmed that large preparers would continue to perform an annual impairment test regardless of a requirement to do so, as they have well designed systems and processes in place to perform annual testing. Conversely, entities in the SME space would likely take advantage of this relief as annual impairment testing is costly and time consuming. However, feedback from auditors suggests that practically, auditors are likely to need additional audit evidence to confirm that the goodwill is not materially misstated, which could offset the cost savings. Further, under an indicator approach, entities would need to spend time assessing (and documenting in their view) whether impairment indicators are present and would need to spend time regaining skills and expertise should an impairment loss be required in a subsequent period. For this reason, any potential cost savings from an indicator approach (especially where an entity takes advantage of the relief) may not be as great as expected. Further, an indicator approach may result in indicators being missed and impairment losses not being recognised when they should be. Finally, users expressed concerns about the loss of the disclosures of the key assumptions made in performing the annual impairment test. Considering the mixed feedback received, staff have two alternative views on how to respond to this issue and are seeking the Board's views on which to adopt. **View 1:** The Board **does not support the proposal to remove the annual impairment test requirement** because there is not enough evidence of significant cost savings and there is significant concern from users about the loss of information from the financial statements. However, if the IASB disagrees and proceeds with the removal, entities should be required to disclose if they have not performed an impairment test (as there were no impairment indicators) and explain the reasons why no test was required, including the indicators considered in the assessment. The IASB should also reconsider the list of impairment indicators and provide a non-exhaustive list of additional, more specific indicators which have a stronger focus on internal factors that are particularly relevant to goodwill and intangible assets with an indefinite life. Examples could be a loss of a major customer or group of customers, loss of market share, loss of key employees that were critical for the brand development or development of technological platforms, or the failure to meet internal metrics determined at the time of the acquisition, including expected synergies to arise from the acquisition. **View 2:** The Board **supports the proposal to remove annual impairment test requirement only if the indicator approach can be made more robust and supplemented with additional disclosures**. In particular, entities should be required to disclose if they have not performed an impairment test (as there were no impairment indicators) and explain the reasons why no test was required, including the indicators considered in the assessment. The IASB should also reconsider the list of impairment indicators and provide a non-exhaustive list of additional, more specific indicators which have a stronger focus on internal factors that are particularly relevant to goodwill and intangible assets with an indefinite life. Examples could be a loss of a major customer or group of customers, loss of market	

Feedback	Interaction with the Board’s tentative decisions
share, loss of key employees that were critical for the brand development or development of technological platforms, or the failure to meet internal metrics determined at the time of the acquisition, including expected synergies to arise from the acquisition. The submission should also note that feedback from our stakeholders on expected cost savings was mixed, with many not expecting the cost savings to be significant. While staff received limited feedback regarding how, if at all, the ability to roll-forward prior year impairment tests may reduce compliance costs for preparers in practice, this could be a preferred solution to removing the annual impairment test altogether. Therefore, **staff suggest recommending the IASB conduct further research on this matter**. **See Question 5 to the Board.**	

Key Issue 6 - Allowing the reversal of goodwill impairments

21 Unlike other intangible assets, entities are not permitted to reverse a previously recognised impairment of goodwill. This is because it is not possible to determine how much of any increase in the recoverable amount is attributable to the recovery of acquired goodwill rather than an increase in internally generated goodwill. Internally generated goodwill is not recognised as an asset.

22 Following the September meeting, the IASB staff have received some feedback suggesting that in periods of uncertainty (e.g. as a result of COVID-19), the inability to reverse impairment losses on goodwill may contribute to the ‘too little, too late’ problem. When faced with uncertain economic events management may adopt a ‘wait and see’ approach to prevent an impairment of goodwill that might prove to be unnecessary when the uncertainty is resolved.

23 While this topic has not yet been discussed by the IASB, it was discussed by IASB staff with the Capital Markets Advisory Committee and by AASB staff with UAC members, preparers and other stakeholders.

Feedback
UTS: No comment.
AGL: No comment.
UAC: Overall UAC members were not too concerned about the potential of allowing the reversal of goodwill impairments and indicated they would be more interested in why impairment losses have been reversed rather than the amount of the reversal.

Feedback
However, UAC members did not believe the ability to reverse impairment losses would necessarily encourage management to recognise impairment losses on a timelier basis. Some members were also concerned that the ability to reverse impairment losses could be used to manipulate management KPIs.
Other – Users: Users did not support the reversal of goodwill impairments. One indicated that they expect management will always be reluctant to impair goodwill given the potential impact on their credibility (though this differs of course when new management are appointed), so they expect management would be even more reluctant to reverse previously recognised impairments in fear of having to re-impair goodwill in a subsequent period. Another user felt that impaired assets should be left impaired. This is to ensure that the impairment process is given appropriate consideration and that the carrying value of assets are not impaired without serious consideration of future period values.
Preparers (large listed entities): Feedback suggested that allowing the reversal of goodwill impairments would not result in earlier recognition of impairment losses earlier as impairment losses can only be recognised when an impairment is 'confirmed' by the impairment test. As investors are more conservative and require more strict verifications for 'good news' (e.g. a reversal of an impairment loss), preparers indicated they did not expect investors would appreciate large upside movements/surprises either.
Other stakeholders[9]: No comment.
CAANZ staff: No comment.
Staff analysis and recommendation: Staff acknowledge the rationale supporting the requirement in paragraph 124 of AASB 136 (IAS 36) that prohibits the reversal of impairment losses recognised in relation to goodwill, however, note that this has not always been the case. The predecessor version of IAS 36 required the reversal of an impairment loss for goodwill recognised in a previous period when the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events had occurred that reversed the effect of that event. However, this requirement was removed when the IASB reissued IAS 36 in 2004 as part of its project on business combinations.

[9] Other stakeholders include auditors, accountants, technical advisors, regulators, academics and professional bodies.

Feedback
The IAS 36 Basis for Conclusions[10] notes that, if reversals of impairment losses for goodwill were permitted, an entity would need to establish the extent to which a subsequent increase in the recoverable amount of goodwill is attributable to the recovery of the acquired goodwill within a cash-generating unit, rather than an increase in the internally generated goodwill within the unit. At the time the IASB concluded that this would seldom, if ever, be possible. Because the acquired goodwill and internally generated goodwill contribute jointly to the same cash flows, any subsequent increase in the recoverable amount of the acquired goodwill is indistinguishable from an increase in the internally generated goodwill. Even if the specific external event that caused the recognition of the impairment loss is reversed, it will seldom, if ever, be possible to determine that the effect of that reversal is a corresponding increase in the recoverable amount of the acquired goodwill. At the time the IASB acknowledged that prohibiting the recognition of reversals of impairment losses for goodwill so as to avoid recognising internally generated goodwill might be viewed by some as inconsistent with the impairment test for goodwill. This is because the impairment test results in the carrying amount of goodwill being shielded from impairment by internally generated goodwill. However, the IASB was not as concerned about goodwill being shielded from the recognition of impairment losses by internally generated goodwill as it was about the direct recognition of internally generated goodwill that might occur if reversals of impairment losses for goodwill were permitted. While there may be a view that entities are at times recognising impairment losses too late because they cannot reverse them in a subsequent period (like they can for other assets) if circumstances improve, feedback obtained by staff does not support this view. Feedback from users and preparers suggests that impairment losses are recognised as expected and feedback from prepares indicates the ability to reverse a previously recognised impairment loss would not affect when they recognise impairment losses. They recognise impairment losses when they are confirmed by the impairment test. As this matter was not contemplated in the Discussion Paper only limited feedback has been obtained. **Staff therefore suggest recommending the IASB perform additional research on this topic to understand whether it could address concerns about impairment losses being recognised 'too little, too late'.** **See Question 6 to the Board.**

Key Issue 7 - The distinction between ViU and FVLCD

24 At the September meeting, the Board tentatively decided to express general support for simplifying the ViU calculation. However, the Board tentatively decided to suggest the IASB develop guidance about when it is reasonable and supportable to include cash flows from future restructurings and asset enhancements. Refer to Key Issue 4.2(a) of Agenda Paper 4.1 for the September meeting.

25 The Board also directed staff to undertake further outreach in relation to the concern that simplifying the ViU calculation (and removing the restriction on cash flows from uncommitted future restructurings and other asset enhancements) may blur the distinction between ViU and FVLCD and that further guidance may be required to clarify the differences between the two models. Refer to Key Issue 4.4(a) of Agenda Paper 4.1 for the September meeting.

10 Refer to paragraphs BC187-BC191.

26 Below is a summary of feedback received through additional outreach activities and comment letters.

Feedback	**Interaction with the Board's tentative decisions**
UTS: No comment.	N/A
AGL: No comment.	N/A
UAC: No comment.	N/A
PAP: Two out of three PAP members that responded to our additional outreach said that additional guidance **is** required. While the post-tax discount rate is already being used in practice, guidance is needed on how to address the interaction between post-tax discount rates and income tax accounting (in particular, temporary differences, tax losses and other tax credits) as it is complex. Guidance is also needed regarding how to treat other items such as lease liabilities and asset restoration obligations in ViU calculations. There is some concern that allowing entities to include cash flows arising from future uncommitted restructurings and other asset enhancements would provide additional opportunity for management overoptimism. Guidance is therefore needed on when it is reasonable to include cash flows from future uncommitted restructurings and other asset enhancements when preparing ViU calculations. There may be merit in considering only one discounted cash flow model which would give greater emphasis to expectations of market participants. This could also address concerns about management overoptimism.	Partially consistent. Implementation guidance should be developed for the use of post-tax discount rates. Refer to key issue 4.3 of Agenda Paper 4.1. Consistent. Guidance about when it is reasonable and supportable to include cash flows from uncommitted future restructurings and asset enhancements is needed. Refer to Key Issue 4.2(a) of Agenda Paper 4.1 Inconsistent. While AASB Research Report 9 also recommended developing a single modified model[11] and this was considered by the IASB, the Board tentatively agreed with the IASB's conclusion that both VIU and FVLCD remain valid options. Staff agree with this conclusion.
Preparers – **No** additional guidance required	Consistent.

[11] AASB Research Report 9 recommends developing a single modified model approach that reserves the use of a FVLCD-type model for assets expected to be disposed of within the following financial reporting period).

Feedback	Interaction with the Board's tentative decisions
Preparers indicated that they generally have a good understanding of the difference between ViU and FVLCD, though they do not consider ViU is that much different from FVLCD. ViU are reconciled to the FVLCD for reasonableness of the results. The ability to use post-tax cash flows is supported as it aligns with what entities are doing in practice.	
Other stakeholders[12]: There was some support to have just one model rather than separate ViU and FVLCD models	Inconsistent. While AASB Research Report 9 also recommended developing a single modified model and this was considered by the IASB, the Board tentatively agreed with the IASB's conclusion that both VIU and FVLCD remain valid options.
CAANZ staff: Preliminary feedback from CAANZ staff is that including cash flows from uncommitted future restructurings and other asset enhancements may shift management's assessment from internal towards external indicators and could lead to overly optimistic forecasts that would impact the recognition of impairment losses. There is general support for retaining the two models (ViU and FVLCD). The use of post-tax cash flows is welcomed as it aligns with what entities are doing in practice.	Consistent

Staff analysis and recommendation:

Consistent with the Board's tentative decision at the September meeting, feedback suggests support for allowing the use of either pre- or post-tax cash flows.

With respect to whether additional guidance may be required to articulate the differences between the ViU and FVLCD impairment models, feedback indicates on one side that additional guidance is not required as preparers did not express concerns about understanding the differences and being able to distinguish between ViU and FVLCD. However, some PAP members noted that guidance is required not only in relation the use of pre- vs post-tax cash flows but also more generally in relation to the application of the ViU test, for example in relation to the treatment of lease liabilities and asset retirement obligations.

12 Other stakeholders include auditors, accountants, technical advisors, regulators, academics and professional bodies.

Feedback	Interaction with the Board's tentative decisions
On this basis **Staff recommend supporting the proposed simplifications of the impairment test** by permitting the use of either pre- or post-tax discount rates and removing the restriction on cash flows from uncommitted future restructurings and other asset enhancement**, but to suggest the IASB provides guidance on when it is reasonable and supportable to include such cash flows and to provide implementation guidance in relation to the use of post-tax discount rates and the inclusion of other items such as lease liabilities and asset retirement obligations.** While noting that the majority of stakeholders either did not comment or supported retaining two different models, staff consider moving to one model would remove some of the judgement and could also address the concerns about too much optimism used in performing ViU calculations. **Staff therefore recommend suggesting the IASB undertake further research in this regard**. **See Question 7 to the Board.**	

OTHER ISSUES FOR DISCUSSION AT THIS MEETING

27 From outreach activities and submissions received, stakeholders also raised some other topics as outlined below:

(a) UTS and a UAC member (at the July UAC meeting) suggested that the separate recognition of identifiable intangible assets contributes to transparency in business combinations.

(b) UAC members indicated that more granularity is needed, in particular in relation to provisions recognised on acquisition.

Feedback	Has this issue been considered by the IASB? If yes, where.
Other issue a - *Separate recognition of identifiable intangible assets – this issue is considered in Section 5 of the Discussion Paper.*	
UTS: Literature[13] suggests that amounts being recognised for identifiable intangible assets are relevant to users of financial statements, evidenced by positive (and statistically significant) associations between voluntarily recognised and disclosed identifiable intangible assets and future periods stock price, earnings and realised future period income. This evidence suggests that the identifiable intangible assets disclosure is value relevant (Ritter and Wells, 2006).	Yes – refer to paragraphs 5.7 and 5.25(a) of the Discussion Paper. Paragraph 5.11 of the Discussion Paper also refers to relevant academic literature which provided some evidence to support recognising intangible assets separately as required by IFRS 3. However, the discussion paper also notes that evidence varied between countries.

13 Ritter, A., & Wells, P. (2006). Identifiable intangible asset disclosures, stock prices and future earnings. Accounting & Finance, 46(5), 843-863.

Feedback	Has this issue been considered by the IASB? If yes, where.
More recent research (Su and Wells 2015; 2018)[14] suggests that the positive association between identifiable intangible assets and acquisition premium overpayment presents in pre-IFRS period but not in the post-IFRS period (during which the researchers consider that treatment for goodwill recognition is more opaque) in Australia. The recognition of identifiable intangible assets decreased after the transition to IFRS. Doubtless this was attributable to incentives created by the removal of the requirement to amortise goodwill and the ability to shield recognised goodwill from impairment due to unrecognised internally generated goodwill and identifiable intangible assets. The recognition of goodwill obscures acquisitions and their performance, and resolution of the accounting issues requires consideration about whether the preferred practice is to recognise goodwill or only identifiable intangible assets. Evidence from the literature implies that recognition of intangible assets contributes to transparency in business combinations.	
AGL: No comment.	N/A
UAC (July 2020 meeting): One UAC member suggested to put intangibles back in with goodwill, and not amortise them either. This is because cynically the valuation of separately identifiable intangibles is extremely judgemental therefore separate recognition may provide limited information. The preference was for all acquired intangibles to be recognised together and tested for impairment. Another member added that it would be difficult to distinguish between which intangibles should be included in goodwill. For example, should those with a defined life with a genuine renewal be considered separately from customer relationships or customer contracts that should be subsumed into goodwill.	Yes – refer to paragraphs 5.4 to 5.28 of the Discussion Paper.

14 Su, W. H., & Wells, P. (2015). The association of identifiable intangible assets acquired and recognised in business acquisitions with post-acquisition firm performance. Accounting & Finance, 55(4), 1171-1199.
Su, W. H., & Wells, P. (2018). Acquisition premiums and the recognition of identifiable intangible assets in business combinations pre- and post-IFRS adoption. Accounting Research Journal, 31(2), 135-156.

Feedback	Has this issue been considered by the IASB? If yes, where.
Internally generated intangibles are problematic, the ones that can be purchased are less judgemental.	
Preparers: No comment.	N/A
Other stakeholders[15]: No comment.	N/A
CAANZ staff: No comment.	N/A
Staff analysis and recommendation: Feedback on the usefulness of the separate recognition of identifiable intangible assets is mixed, however no new arguments were presented. Consistent with the conclusion in paragraph 5.27 of the Discussion Paper staff agree there is no compelling evidence to consider changing the existing requirements. On this basis **Staff do not recommend commenting on this issue in the submission.** **See Question 8 to the Board.**	

Feedback	Interaction with the Board's tentative decisions
Other issue b - *Granularity of acquired assets and liabilities. Refer to Key Issue 2.1(e) of Agenda Paper 4.1 for the September meeting.*	
UAC: Consistent with their feedback in July UAC meeting, UAC members again indicated that they would like to see more granularity in the disclosure of acquired assets and liabilities, in particular for provisions. UAC members would also like to see disclosure of how these provisions are used in the years following an acquisition.	Inconsistent. The Board tentatively decided to not suggest any amendments to the Discussion Paper in its September meeting. While acknowledging that additional information will always be useful, suggesting that assets and liabilities be disclosed at a level other than 'classes' would be inconsistent with the principles used in many Standards. Any changes may also introduce inconsistencies between Standards.
Staff analysis and recommendation:	

[15] Other stakeholders include auditors, accountants, technical advisors, regulators, academics and professional bodies.

Despite the users’ desire for additional information, staff continue to be of the view that requiring disclosure of acquired assets and liabilities at a level other than ‘classes’ would be inconsistent with the principles used in many Standards.

Therefore, **staff do not recommend raising this issue in the submission.**

See Question 9 to the Board.

DRAFT COMMENT LETTER AND NEXT STEPS

28 Staff have attached a working draft of the comment letter as Agenda Paper 6.2. The draft comment letter reflects previous tentative decisions of the Board and incorporates the staff recommendations set out in this paper. Staff are not seeking views on drafting at this time, as individual responses are yet to be properly formulated and will be refined subsequent to the November Board meeting, reflecting the decisions made at that meeting. Staff are providing this working draft so Board Members can see the broad outline and proposed content of the submission and provide general direction to staff about any additional issues they would like incorporated in the submission.

29 As agreed at the September Board meeting, the comment letter to IASB on Discussion Paper/2020/1 will not respond to all questions. For completeness staff have included a summary of all questions asked in the Discussion Paper in Appendix A, indicating those which staff suggest will and will not be included in the comment letter for the Board’s information.

30 Staff are not seeking the Board’s approval of the draft comment letter at this meeting, as it is not due to the IASB until 31 December 2020. In order to finalise the draft comment letter staff, recommend the formation of a sub-committee of Board members to finalise and approve the comment letter out-of-session.

Appendix A Summary of Discussion Paper questions

31 For completeness staff have included a summary of all questions asked in the Discussion Paper indicating those which are and are not included in the draft comment letter for the Board's information.

Question number	Summary of question	Is a response included in the draft comment letter?
1(a)	Do you agree with that the proposals as a package meet the objective of the project, which is to explore whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make.	✓
1(b)	Does you answer depend on other questions (e.g. whether or not goodwill is introduced).	✓
2(a)	Do you think the disclosure proposals will provide investors with enough information to help them understand the subsequent performance of acquisitions.	✓
2(b)	Do you agree with the disclosure proposals requiring disclosures about the strategic rationale for acquisitions, the CODM's objectives for acquisitions and information about the subsequent performance of those acquisitions.	✓
2(c)	Do you agree with the proposals that information provided about acquisitions should be provided based on the information monitored by the CODM.	✓
2(d)	Could commercial sensitivity inhibit disclosure of the information referred to in question 2(b).	✗
2(e)	The IASB does not consider the information referred to in question 2(b) to be forward-looking, however are there any constraints in Australia that could affect a company's ability to disclose this information.	✗
3	In addition to the disclosure proposals in question 2(b), do you agree with the proposals to add disclosure objectives to provide information to help investors understand the benefits management expected from an acquisition and whether or not they are being met.	✗
4	Do you agree with the proposal to require entities to disclose information about the synergies expected at the date of acquisition.	✓

Question number	Summary of question	Is a response included in the draft comment letter?
	Do you agree with the proposal to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities.	✘
5(a), (b) and (c)	Do you agree with retaining the requirement to disclose existing pro-forma information (revenue and profit and loss). Is guidance about how to prepare this information required. If not, should entities be required to disclose how they prepare this information. Do you agree with replacing the term 'profit or loss' with 'operating profit before acquisition-related transaction and integration costs. Should entities also disclose information about pro-forma cash flows.	✓
6(a) and (b)	Do you agree it is not feasible to design a significantly more effective impairment test. If not, how should the impairment test be changed.	✘
6(c)	Other than cash flow estimates being too optimistic and shielding, are there any other reasons why impairment losses on goodwill are not recognised on a timely basis.	✓
6(d)	Are there any other aspects of IAS 36 that should be considered as a result of the IFRS 3 post-implementation review.	✓
7(a)	Do you agree that the impairment only model should be retained.	✓
7(b)	Has your view on amortisation changed since 2004.	✘
7(c)	Would reintroducing amortisation resolve the main reasons for the concerns that entities don't recognise goodwill impairment losses on a timely basis.	✘
7(d)	Do you view acquired goodwill as distinct from goodwill subsequent internally generated.	✘

Question number	Summary of question	Is a response included in the draft comment letter?
7(e)	If amortisation were reintroduced, do you think entities would adjust or create new management performance measures (MPM) to add back the amortisation expense. Under the impairment model are entities adding back impairment losses in their MPMs.	✓
7(f)	If you favour reintroducing amortisation of goodwill, how should the useful life and its amortisation pattern be determined.	✗
8	Do you agree that entities should present total equity excluding goodwill on their balance sheet. Do you have any comments on how a company should present such an amount.	✓
9 (a), (b) and (c)	Do you agree with the proposal that an impairment test would only be required annual if impairment indicators are present. Do you think this proposal would reduce costs significantly. Do you think the proposals would make the impairment tests significantly less robust.	✓
10(a) and (b)	Do you agree with removing the restriction on including certain cash flows in estimating ViU. Do you agree with allowing entities to use either pre- or post-tax cash flows and discount rates in the ViU. Do you think discipline (in addition to the discipline already required) should be required in estimating cash flows.	✓
11	The IASB decided not to pursue additional amendments simplifying the impairment test. Do you agree (a) adding more guidance on the difference between company-specific inputs used in value in use and market-participant inputs used in fair value less costs of disposal. (b) mandating only one method for estimating the recoverable amount of an asset (either value in use or fair value less costs of disposal), or requiring a company to select the method that reflects the way the company expects to recover an asset. (c) allowing companies to test goodwill at the company level or at the level of reportable segments rather than requiring companies to allocate goodwill to groups of cash-generating units that represent the lowest level at which the goodwill	✗

Question number	Summary of question	Is a response included in the draft comment letter?
	is monitored for internal management purposes. Many stakeholders have said that allocating goodwill to cash generating units is one of the main challenges of the impairment test. (d) adding guidance on identifying cash-generating units and on allocating goodwill to cash-generating units. Can you suggest other ways of reducing the cost and complexity of performing the impairment test without making the information less useful to investors.	
12	Do you agree that the IASB should not develop a proposal to allow some intangible assets to be included in goodwill. Would your view change if amortisation were to be reintroduced.	✘
13	Do any responses depend on whether the outcome of the proposals is consistent with US GAAP.	✘
14	Do you have any other comments.	✓