



Financial Reporting Webinar Series: Standing at the crossroads: the search for value in goodwill

Friday 18 September 2020



US FASB: Identifiable intangible assets and subsequent accounting for goodwill



In July 2019, the FASB published the Invitation to Comment – Identifiable intangible assets and subsequent accounting for goodwill



101 comment letters received, 56 supported amortization, 33 disagreed, 6 were neutral, some suggested direct write-off (not an alternative discussed in the ITC)



Diversity of views is observed on a default amortization period



Latest tentative decisions from the FASB (July 2020) on general direction of the project:

- Explore adding amortization to the goodwill impairment model
- Making other changes to the goodwill impairment model
- Address presentation, disclosure and transition
- Consider the accounting for identifiable intangible assets

FASB INVITATION TO COMMENT

Issued: July 9, 2019
Comments Due: October 7, 2019

Identifiable Intangible Assets and Subsequent
Accounting for Goodwill

Comments should be addressed to:

Technical Director
File Reference No. 2019-720

Financial Accounting Standards Board

Discussion Paper: Business Combinations – Disclosures, Goodwill and Impairment



In March 2020, the IASB published the Discussion Paper *Business Combinations—Disclosures, Goodwill and Impairment*.



The objective of this project is to improve the information companies provide to investors, at a reasonable cost, about the acquisitions those companies make.



The preliminary views focus on disclosure of information and on accounting for goodwill.



The comment letter period is open until 31 December 2020.

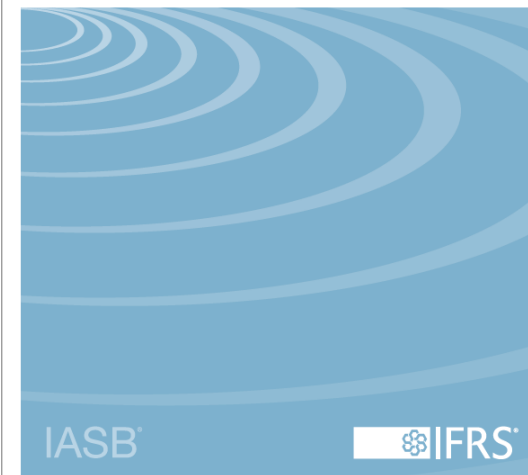
March 2020

IFRS® Standards
Discussion Paper DP/2020/1

Business Combinations—Disclosures, Goodwill and Impairment

Comments to be received by 31 December 2020


Comment deadline changed from 15 September 2020 because of the covid-19 pandemic



IASB

IFRS

Improving the accounting for goodwill




1

Can the impairment test be made more effective?



2

Should goodwill be amortized?



3

Can the impairment test be simplified?

Can the impairment test be made more effective?



Applying IAS 36, a company is required to test annually whether goodwill is impaired — whether its value is lower than the carrying amount.



Stakeholders have mixed views about whether this test is effective.



The Board has been exploring whether it can make the impairment test more effective and less complex.

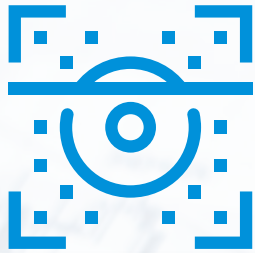
- Inform investors about an acquisition's performance

- Costly and complex
- Impairment losses are often reported too late to be useful to investors

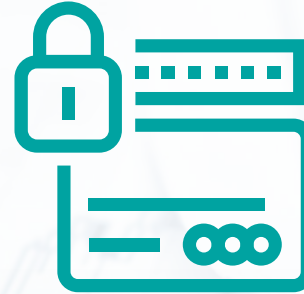
→ too optimistic cash flow estimates

→ shielding of goodwill from impairment by headroom

Can the impairment test be made more effective?



**No feasible
alternative test**



**The test is not intended
to test goodwill directly**



Disclosure solution



**Board's
preliminary view**

Should goodwill be amortized?



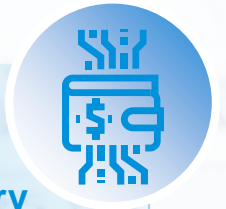
The Board also considered whether to reintroduce amortization of goodwill —the gradual write-down of goodwill over time, which was the requirement in IFRS Standards until 2004.

Amortizing goodwill



- Goodwill is **overstated**, so management is not held to account.
- Amortization is **simple** and **targets acquired goodwill directly**.
- The impairment test is not working as well as the Board intended.
- Goodwill is a **wasting asset**. Amortization is the **only way to show the consumption of goodwill**.
- Amortization would ultimately make the impairment test **easier** and **less costly** to apply.

Retaining the impairment-only model



- The impairment-only model provides **useful confirmatory information** to investors.
- **Amortization is arbitrary** and would be ignored by many investors.
- If **applied well**, the impairment test works as the Board intended, ensuring that, as a group, goodwill and other assets of a business are **not overstated**.
- The benefits of goodwill are maintained for an indefinite period, so goodwill is **not a wasting asset**.
- Amortization would **not significantly reduce the cost of impairment testing**, especially in the first few years.

Should goodwill be amortized?



No compelling evidence that amortization would significantly improve financial reporting



**Retains the
impairment-only
approach**



**Board's
preliminary view**

**Stakeholders are invited to
provide new arguments to
help the Board decide how
to move forward on this
topic.**



Can the impairment test be simplified?



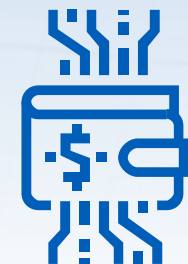
Relief from an annual impairment test

- Remove requirement to test CGUs containing goodwill for impairment at least annually.
- Companies must still assess whether there is any indicator of impairment, and perform the impairment test if there is.



Simplifying value in use estimates

- Remove restriction on including some cash flows in value in use estimates.
- Cash flow forecasts still need to be reasonable and supportable.
- Allow use of post-tax discount rates and post-tax cash flows.




Resources



☰ KPMG

Should goodwill amortisation be reintroduced?

Consultation seeks to help investors assess how acquisitions are performing



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COVID-19 | Financial reporting

Resource centre on the financial reporting impacts of coronavirus.



Twitter LinkedIn Facebook Print Bookmark

KPMG

COVID-19: Considerations for impairment testing

May 2020

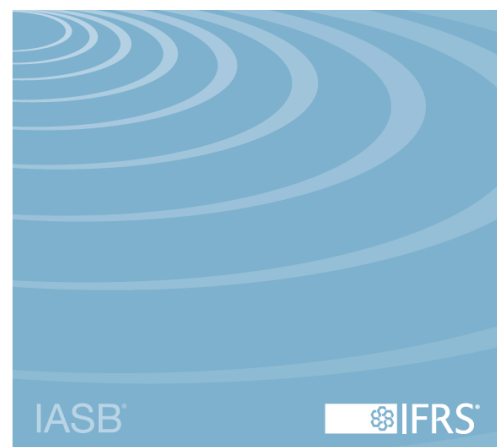


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[IFRS Standards Discussion Paper \(DP/2020/1\)](#)
Business Combinations - Disclosures, Goodwill and Impairment
[IASB Project Page - Goodwill and Impairment](#)

Tentative dates and topics for 2020



- 15 May – Sailing through the storm with clarity (COVID-19 related accounting issues)
- 12 June – ESG reporting: latest developments
- 17 July – Use of non-GAAP measures and IASB's primary financial statements project
- 18 September – The search for value in Goodwill
- **13 November – Assurance on ESG Reporting**
- **Mid December – Key year-end reporting considerations**

For more details and access to our webinar series:

<https://home.kpmg/cn/en/home/services/audit/ifrs-news/financial-reporting-webinar-series.html>

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Thank you



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