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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

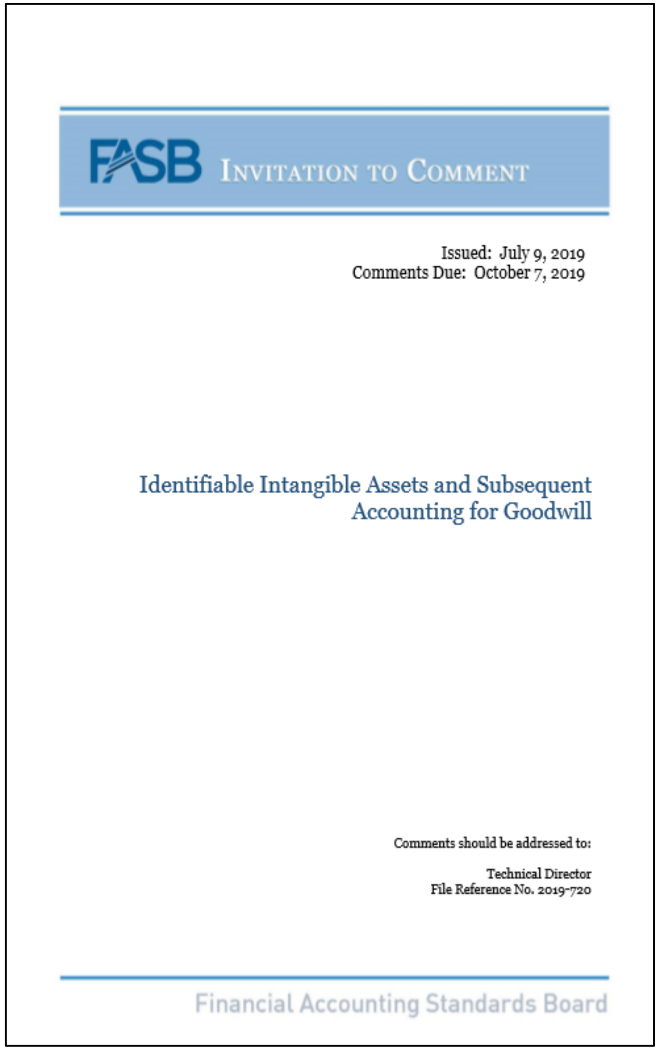
In July 2019, the FASB published the Invitation to Comment – Identifiable intangible assets and subsequent accounting for goodwill

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

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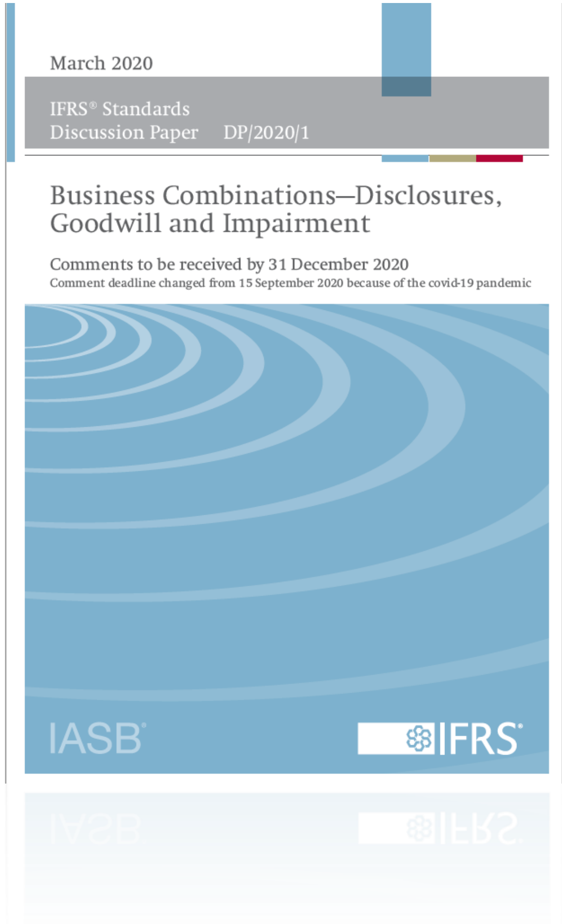
Discussion Paper: Business Combinations - Disclosures, Goodwill and Impairment

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.



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?

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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?

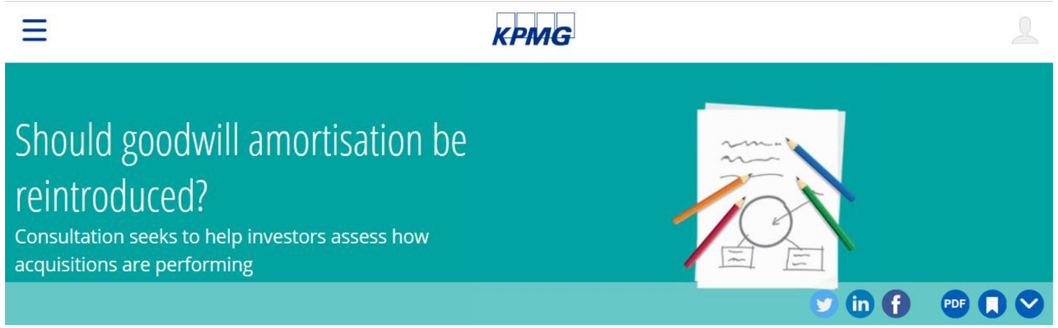
Relief from an annual impairment test

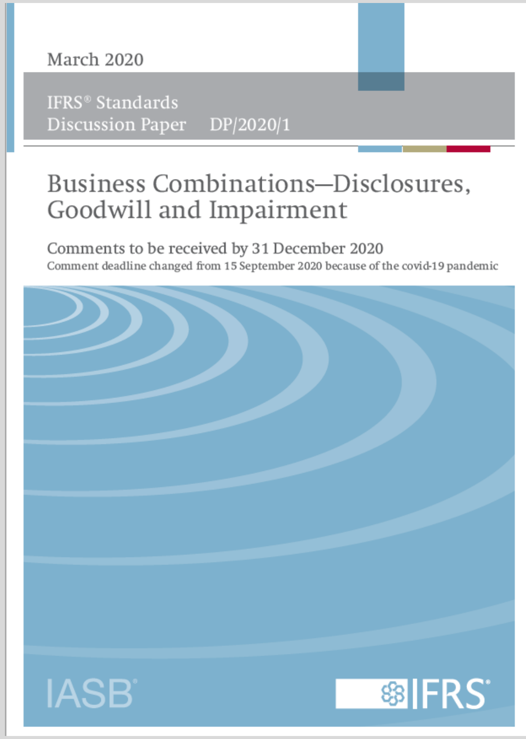
- Remove requirement to test CGUs containing goodwill for impairment at least annually.
- Companies must still assess whether there is any indicator of impairment, and perform the impairment test if there is.

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





[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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