Brewing Over

The story of Goodwill and impairment

The current state of Goodwill

Goodwill is defined as being "*An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised*."

An acquirer recognises goodwill at the acquisition date measured as the ***excess*** of a) over b) :
(a) being the aggregate of:
- (i) the consideration transferred, which generally requires acquisition-date fair value;
- (ii) the amount of any non-controlling interest in the acquiree; and
- (iii) the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree

(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this IFRS. (IFRS 3 *Business Combinations* para 32).

Currently, the only disclosures required in IFRS 3 for Goodwill is a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors. (IFRS 3 para B64 e)

Subsequently, unlike IFRS for SMEs, Goodwill is not amortised, it ultimately represents an indefinite life intangible asset. IAS 36 *Impairment of Assets* however requires Goodwill to be tested for impairment annually, irrespective of whether there is an indicator of impairment.

As Goodwill does not generate cash flows on its own, it would need to be attributed to a Cash Generating Unit (the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets) in order for its recoverable amount to be tested. The methodology in IFRS for the measurement of the recoverable amount requires significant degree of management judgement and estimation uncertainty.

A further burden on a preparer is that IAS 36 requires extensive disclosures in the financial statements for the impairment assessment of Goodwill – irrespective of whether or not there has been an impairment (IAS 36 para 134).

Once impaired, Goodwill, unlike other assets, may not be reinstated – IFRS prohibits a reversal of an impairment of Goodwill (IAS 36 para 124).

So in summary, Goodwill, arises only as part of a Business Combination and its value is ultimately the residual. In many instances, this value is material, and yet very little information is provided to a user as to why the acquirer paid a premium for the acquisition, and no further information is required in this regard in subsequent periods. Subsequently the asset *has* to undergo an often costly impairment assessment exercise, for which extensive disclosure is required in the financial statements, irrespective of whether an impairment was required.

One may say this treatment seems to be somewhat onerous, and different to the general treatment of other assets from an IFRS perspective…

The current discussions being held

The IASB issued a Discussion Paper in March 2020 in which they address various issues pertaining to Goodwill. The board is currently discussing the feedback therefrom and the project plan.

The issues considered in this DP included:

(a) disclosing information about acquisitions;

(b) testing Goodwill for impairment—effectiveness and cost;

(c) whether to reintroduce amortisation of Goodwill;

(d) and recognising intangible assets separately from Goodwill.

The preliminary views expressed by the board are:

- The board should develop proposals to enhance disclosure objectives and requirements in IFRS 3 to improve information provided to investors about an acquisition and its subsequent performance
- There will be no separate impairment model developed specifically for Goodwill
- Amortisation of Goodwill will not be introduced
- The board should develop proposals requiring companies to present on their Statement of Financial Position the amount of total equity excluding Goodwill
- The board should develop proposals intended to reduce cost and complexity of impairment tests required by :
    - removing the requirement of an annual impairment assessment of Goodwill, intangible assets with indefinite lives and intangible assets not yet ready for use
    - removing certain restrictions in the value in use cash flows and permitting the use of pre tax-cash flows and pre-tax discount rates

The board met in September 2021 to consider its plan to redeliberate its preliminary views. The board plans to prioritise work on the disclosure requirements about acquisitions in terms of IFRS 3, and to analyse feedback received on the treatment of Goodwill – including further assessment of whether an amortisation model could be introduced.

The board is expected to decide on the project direction early in 2022. Watch this space as changes to IFRS 3 and IAS 36 are expected.

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