To: Constituents

Date: 27 July 2012

Questionnaire on goodwill impairment and amortisation

Dear Sir/Madam,

The IASB is required to conduct a post-implementation review (PIR) of each new IFRS or major amendment. It is expected that a PIR on IFRS 3 *Business Combinations* will be initiated in 2013. Currently, post-implementation reviews are normally limited to important issues identified as contentious during the development of the pronouncement and consideration of any unexpected costs or implementation problems encountered ([1]).

IFRS 3 requires goodwill to be tested for impairment at least annually in accordance with the IAS 36 *Impairment of Asserts*. Goodwill should thus not be amortised. The prohibition to amortise goodwill was included in the 2004 version of IFRS 3. Prior to the issuance of IFRS 3 in 2004, IAS 22 *Business Combinations* required amortisation of goodwill on a systematic basis over the best estimate of its useful life, generally not exceeding twenty years ([2]) from initial recognition. If the entity was able to demonstrate a longer useful life the amortisation period could exceed twenty years; however, in that case goodwill was required to be tested annually for impairment in accordance with IAS 36.

The IASB explained the reasons for the decision to discontinue the IAS 22 requirements in the basis for conclusions of IFRS 3 (2004 version) ([3]).

1 IASB rules on Post-implementation review are currently under revision (see “IASB and IFRS Interpretations Committee - Due Process Handbook – Invitation to comment”, May 2012).

2 In US APB 17 required 40 year. APB was replaced by FAS 141 that discontinued the amortisation of goodwill.

3 The reasons for discontinuing the amortisation of goodwill after initial recognition are provided by the IASB in the basis for conclusions (BC 140 – BC 142) of IFRS 3 (2004 version) as follows: a) **Reliability**. The board stated that the “*useful life of acquired goodwill and the pattern in which it diminishes generally are not possible to predict, yet its amortisation depends on such predictions. As a result, the amount amortised in any given period can at best be described as an arbitrary estimate of the consumption of acquired goodwill during that period*”; b) **Useful information**. It is recognised that the goodwill is an asset and that in some sense during its life the initially recognised goodwill is replaced by the internally generated goodwill, provided that the entity is able to maintain over time the original overall value of the goodwill. However the Board remained doubtful about the usefulness of having both a straight-line amortisation charge that reflects the consumption of acquired goodwill and the internally generated goodwill replacing it not recognised. The Board was convinced that “*if a rigorous and operational impairment test could be devised, more useful information would be provided to users of an entity’s financial statements under an approach in which goodwill is not amortised, but instead tested for impairment annually or more frequently if events or changes in circumstances indicate that the goodwill might be impaired*”.

As demonstrated by the comment letters submitted to the IASB during the deliberation of the standard and confirmed by the level of the international debate in the last decade around this topic, the decision to prohibit amortisation of goodwill was contentious.

The OIC and EFRAG have therefore initiated a project aiming to provide early input and an in-depth analysis to the IASB's post-implementation review of IFRS 3, focusing on the value to users of financial reporting resulting from the combined application of impairment requirements for goodwill and the IAS 36 impairment tests.

The interest on this topic has also been expressed by the Chairman of the IASB, Mr. Hoogervorst in a recent speech ([4]): "*The acquired goodwill is subsequently subject to an annual impairment test. In practice, these impairment tests do not always seem to be done with sufficient rigour. Often, share prices reflect the impairment before the company records it on the balance sheet. In other words, the impairment test comes too late. All in all, it might be a good idea if we took another look at goodwill in the context of the post-implementation review of IFRS 3 Business Combinations.*"

The scope of the project is limited to the subsequent measurement of goodwill within the context of current requirements.

The starting point of the project is this questionnaire prepared by the OIC and the EFRAG secretariat, which is distributed to constituents (users, preparers, and standard setters) in Europe and in other jurisdictions outside Europe that cooperate in doing the survey. Subsequent phases in the project will depend on the facts and views received through this questionnaire.

This questionnaire is divided into five parts, each dealing with issues primarily targeted at different types of constituents. However, you are invited to answer the questions raised in all sections of the questionnaire, should you wish to. The five parts of the questionnaire are:

PART 1 Includes questions on the usefulness of the financial information based on the current accounting for the subsequent measurement of acquired goodwill. This part is primarily targeted at users of financial statements.

PART 2 Considers the consistency of the discontinuation of amortisation of goodwill with the treatment of internally generated goodwill (IAS 38 *Intangible Assets*), and effects of goodwill impairments in time of financial crises. This part is primarily targeted at people involved in accounting standard setting and regulation.

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[4] The imprecise world of accounting, International Association for Accounting Education & Research (IAAER) Conference. Amsterdam, 20 June 2012.

PART 3 Enquires about the costs of application of the impairment tests of goodwill, and is primarily targeted at preparers of financial statements.

PART 4 Enquires about auditability of application of the impairment tests of goodwill, and is primarily targeted at auditors of financial statements.

PART 5 Enquires about academic or institutional research relating to the impairment of goodwill, and is primarily targeted at academics.

We would appreciate if you can send to staff@fondazioneoic.it your responses to questions included in the appendix by 30 September 2012.

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BACKGROUND INFORMATION

What is your background?

- ☐ Financial statements preparer
- ☐ Financial statements user (please specify what type of user (sell side analyst, buy side analyst, bank, supplier, employee etc):
- ☐ Auditor
- ☐ Academic
- ☐ Regulator
- ☒ Standard Setter
  Please note that views expressed in this response are solely on the ASBJ staff's, as the Board has not deliberated the response to the questionnaire.
- ☐ Other (please specify):

In what country/countries is your organisation or entity operating?

Japan

May we contact you if we have questions about your responses?

- ☐ No
- ☒ Yes, if so, please provide your contact details:

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PART 1

Usefulness of the financial information based on the current accounting for the subsequent measurement of acquired goodwill for users

Description of the issues

In the PIR process the current accounting requirement should be tested to verify whether in practice it can be demonstrated that impairment of goodwill has information value for users. Analysing some academic research available it seems that there are split views ([5]):

1. Impairment of goodwill has information value to users as it helps to predict future cash flows (predictive value). This could be demonstrated by the fact that some investors and financial analysts react and adjust their short term and long-term expectations negatively as a result of impairment announcement.
2. Impairment of goodwill has information value to users as it helps to confirm the current estimate of future cash flow of the entity (confirmative value).
3. Impairment of goodwill has no information value because it neither helps users to predict future cash flows nor to confirm the current estimate of future cash flow of the entity (no value).

Questions

[Q1] Which of the following elements ([6]) do you consider goodwill normally consists of (it is possible to choose more than one answer)?

- ☐ Unrecognised assets that generate future economic benefits (e.g. workforce)
- ☐ Recognition or measurement mismatches (e.g., deferred tax and pensions)
- ☐ Overpayment for the target company
- ☐ Measurement errors of other assets and liabilities of the acquired company
- ☐ Synergies
- ☐ Other elements (please specify):

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5 These views are based on the analysis of some academic papers on the topic.
6 See further explanations for IFRS3 *Business Combinations*, BC313

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[Q2] Do you use the information on goodwill presented in the financial statements when assessing the financial position and performance of an entity?

☐ Yes (if so, go directly to section [Qz])

☐ No (if so, go to section [Qx])

Section [Qx]

Please answer the questions in this section if you do NOT use the information on goodwill presented in the financial statements.

[Qx1] Why do you disregard the information on goodwill reported in the financial statements (it is possible to choose more than one answer)?

☐ Because using other available information that is not included in the financial statements is more effective when analysing goodwill and/or estimating expected cash flows of an entity (group). If you choose this answer, please explain what other available information you consider to be more effective:

☐ Because the information on goodwill reported in the financial statement is not sufficiently reliable (the information is excessively influenced by the assumptions applied by the entity and these assumptions cannot easily be verified or examined).

- [ ] Because it is too burdensome to use accounting information when analysing the financial position and performance of an entity since too many corrections to the reported figures have to be made.
- [ ] Because it is unclear what the reported goodwill consists of (it is a mixture of old acquired goodwill, newly internally generated goodwill, potential reallocated goodwill among different cash generating units etc.).
- [ ] Because reported goodwill only represents a part of an entity's goodwill as neither goodwill attributable to the minority interest nor internally generated goodwill is included in the reported figure.
- [ ] Because the amount of goodwill is immediately offset against equity in order to remove any noise deriving from entity-specific expectations about future profits.
- [ ] Other reasons (please specify):

[Qx2] Do you think there are other ways to account for the goodwill, which could make the financial information more useful for users?

- [ ] No
- [ ] Yes, if so, please specify how goodwill should be accounted for in order to result in more useful information:

Please go to Question [Q3]

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Section [Qz]

Please answer the questions in this section if you use the information on goodwill presented in the financial statements.

[Qz1] Please specify the purposes accounting information on goodwill is used for (for example: estimation of entity's future cash flows, capital adequacy analysis, assessment of the management's stewardship etc.) and how you normally use such an information.

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[Qz2] Do you use the goodwill figure differently in the analysis of an entity depending on the perceived content of the goodwill? For example, do you use the goodwill figure differently when goodwill is perceived mainly to consist of unrecognised assets (e.g. workforce); recognition or measurement mismatches (e.g. deferred tax and pensions); overpayments for the target company; measurement errors or synergies? Or depending on the industry the reporting entity belongs to?

☐ No

☐ Yes, if so, please specify how you use the goodwill figure depending of its content:

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[Qz3] Do you use specific criteria for assessing the overall reliability of the financial information on goodwill (e.g. whether or not the reporting entity is listed, the number of users/financial analysts that scrutinise the financial information provided by the reporting entity, the quality of the entity's governance etc.)?

☐ No

☐ Yes, if so, please specify the criteria/thresholds you apply:

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[Qz4] Which of the following do you think provides the most relevant information?

☐ The amount of goodwill recognised in the balance sheet; or

☐ The change in the amount of goodwill recognised in the balance sheet.

[Qz5] Do you treat goodwill acquired in a cash-settled business combination differently from goodwill acquired in a business combination settled by an exchange of shares?

☐ No

☐ Yes, if so, please specify the different type of treatment:

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[Qz6] For your analyses, do you make use of the reported goodwill figures together with other information or correct it to go beyond the accounting representation or to reflect your own assumptions, parameters or other data?

☐ No

☐ Yes, if so, how do you use the information (select one or more of the following):

- ☐ In the analysis of the entity's economic performance (i.e. the entity's earning capacity over time), I consider the gradual economic realisation of the acquired goodwill in the form of higher profits or lower costs ("natural consumption" of the goodwill).
- ☐ I use analytical tools to identify and track over time – to the extent possible – the goodwill acquired in each single business combination.
- ☐ I apply specific criteria for allocating goodwill to cash generating units other than those deductible from the entity's financial statements (for example, the segment reporting).
- ☐ Goodwill is for accounting purposes considered as an asset with an "indefinite useful life". However, I have developed or use specific criteria to attach a useful life to goodwill allocated to different cash generating units.
- ☐ Other (please specify other things you include in your analysis or use to correct reported financial data):

[Qz7] In the analysis of the entity (e.g. in estimating future cash flows), do you treat the goodwill figure differently from other intangible assets?

☐ No

☐ Yes, if so, please specify how:

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[Qz8] Are there, in your opinion, other ways to account for the goodwill, than the way it is currently required, which could make the financial information more effective and hence more useful for users?

☐ No

☐ Yes, if so, please specify how:

IMPAIRMENT

[Qz9] Do you think that accounting information on the impairment of goodwill is useful for estimating future cash flows of the entity?

☐ Yes

☐ No, if so, please specify what other type of use you make of the information:

[Qz10] Have you developed or do you use specific criteria in order to distinguish when the impairment of goodwill has “predictive” value (i.e. capable of indicating future decrease of the entity’s profitability) from when it has only “confirmative” value (i.e. providing confirmation of the assessment already made by market participants)?

☐ No

☐ Yes, if so, please provide a brief description of the criteria and their main drivers:

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If yes:

Do you change estimated cash flows when the impairment of goodwill is assessed to have a predictive value? For example, do you think goodwill impairment signals that the unexpected poor performance of a particular business unit of an entity in a given period will continue, and/or do you consider the impairment of goodwill as an indicator that the share price is likely to fall?

☐ Yes

☐ No

When the impairment of goodwill has a confirmative value, how and to what extent do you assess that the trend of market quotations reflects this?

[Qz11] Do you only consider impairment charges that are higher than a particular amount or are considered important by applying other specific criteria?

☐ No

☐ Yes

[Qz12] In analysing the impairment test performed by the reporting entity do you consider the effects of changing the assumptions applied by the entity (e.g. changes in the assumptions about the discount rate, growth rate, etc.)?

☐ No

☐ Yes

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[Qz13] In specific circumstances, for example when the entity has reported significant economic losses in the past year but no impairment loss has been recognised simultaneously, do you reflect possible future impairment losses on goodwill in your analysis?

☐ No

☐ Yes

[Qz14] Are frequency and/or dimension of impairment losses of goodwill relevant for your analyses (e.g. frequent small-amount write-downs are treated differently from episodic large-amount write-down)?

☐ No

☐ Yes

[Qz15] Do you usually foresee an impairment loss to be recognised after a change of the management of a reporting entity?

☐ No

☐ Yes

Section [Q]

OTHER MATTERS

[Q3]: Do you have any additional comment that might be useful in relation to the accounting for goodwill and impairment?

☐ No

☐ Yes, please specify:

PART 2

Consistency of the discontinuation of amortisation of goodwill with the treatment of internally generated goodwill (IAS 38) and effects of goodwill impairments in time of financial crisis.

Consistency of the discontinuation of amortisation of goodwill with the treatment of internally generated goodwill (IAS 38)

In response to ED 3 (2004) the majority of commentators thought that goodwill should be amortised.

The main technical argument was that acquired goodwill is an asset that is consumed and replaced with internally generated goodwill. In this perspective, the amortisation over a certain period of time was seen as a reasonable balance between, on one hand, the difficulty of estimating reliably the pattern of consumption (including the useful life) and, on the other hand, the need to allocate the cost of acquired goodwill over the period it is consumed. The proponent of this approach argued that amortisation of acquired goodwill would ensure full consistency with the general prohibition in IAS 38 to recognise internally generated goodwill.

Furthermore, the decision not to amortise goodwill, may have introduced a bias in the comparison of financial statements of those entities which have acquired another business and those which have not. The entities that have acquired another business can recognise – up to the limit of the acquired goodwill – internally generated goodwill. Entities that have not acquired another business cannot recognise any internally generated goodwill.

The discontinuation of amortisation of acquired goodwill has implicitly changed the meaning of the impairment test: the objective of this test is no longer to check whether or not the acquired goodwill has been consumed (i.e. has provided its benefits to the entity) beyond the extent reflected by the amortisations. Now the objective of the test is to verify whether or not – and to what extent – the new internally generated goodwill has replaced the acquired goodwill.

[Q4] Do you think that conceptually not recognising any reduction of value – other than that due to an impairment loss – on the acquired goodwill means that internally generated goodwill is recognised to replace the acquired goodwill that had been 'consumed' (within the limit of its original cost)?

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☐ No

☒ Yes, if so, how do you think the inconsistency with IAS 38, that prohibits internally goodwill to be recognised, can be solved?

Under IFRSs, recognition of internally generated goodwill is prohibited, because it is not an identifiable resource (i.e., it is not separable nor does it arise from contractual or other legal rights) controlled by the entity that can be measured reliably at cost (IAS 38 *Intangible Assets*, paragraph 48-50).

Acquired goodwill is recognized in the statement of financial position at business combinations, but it is difficult to identify what constitute the amount, since it is calculated as a residual. Nevertheless, on the assumption that goodwill largely represents an excess earning power, in economic sense, its value will depreciate through competition with others. Thus, unless goodwill is amortized over a period of time, the effect of the decrease in values might be dismissed in the accounting records. Even where excess earning power is maintained, it does not necessarily mean that the acquired goodwill does not depreciate. In fact, the value of goodwill is often maintained by an entity's additional investments or efforts; thus, non-amortization of goodwill may result in recognition of internally generated goodwill that is created by these additional investments. In this sense, amortization of acquired goodwill is considered as a mean to allocate the investment on the goodwill over the period in which it is consumed, so that the resulting costs will match the associated revenues in the statement of comprehensive income.

Some may argue that allocation of costs relating to acquired goodwill over the relevant period may be possible through rigorous and frequent impairment testing, since both amortization and impairment approaches enable an entity to reduce the balance of acquired goodwill and recognize the associated amount in profits or losses, when the investment is deemed recovered or found to be failure. The ASBJ staff agrees that this argument holds true, if an entity can distinguish the portion that corresponds to acquired goodwill and the portion that corresponds to subsequently recognized internally generated goodwill when performing impairment tests. However, separating a particular portion of goodwill is seldomly possible (if not impossible), since goodwill is generally calculated as a residual and it consists of a variety of elements. For example, IAS 36 *Impairment of Assets* requires an entity to allocate the acquired goodwill to each of the acquirer's cash generating units

(CGUs) and recognize an impairment loss for the relevant goodwill, if the recoverable amount of the CGU is less than its carrying amount. The ASBJ staff notes that the above calculation only enables an entity to measure the recoverable amount of CGUs in total. In other words, it is not possible to separately compare the amount of acquired goodwill that is recognized at the business combination date with its current value at reporting dates. Thus, even if rigorous impairment testing is performed at each period, goodwill recognized at acquisition may not be considered to be impaired when newly created internally generated goodwill appreciates the goodwill balance in total.

Others may argue that some elements of acquired goodwill do not depreciate over period of time. However, it is very difficult to separate the exact component from the goodwill in total; thus, the ASBJ staff thinks that it is more reasonable to assume that goodwill as a whole largely represents excess-earning power.

Further, others may also argue that the period over which the acquired goodwill is consumed and the depreciation pattern are difficult to predict; thus, an entity's assumptions would be often arbitrary. The ASBJ staff agrees with the difficulties in such estimation, but notes that this difficulty is not necessarily specific for acquired goodwill, because choosing an appropriate depreciation period and depreciation pattern is equally difficult for property, plant and equipment, since it requires judgments about not only expected physical wear and tear but also technical or commercial obsolescence of the asset.

Based on the above analysis, the ASBJ staff thinks that the amortization approach coupled with impairment testing as necessary would achieve a better reflection of an entity's financial condition, in that internally generated goodwill is not recognized in the statement of financial position (as consistent with IAS 38) and better reflects the matching relationship between income and expenses in the relevant periods.

During the deliberations of IFRS 3 (2004), it was discussed whether the pattern and the time period over which the value of acquired goodwill diminishes can be predicted sufficiently reliably. The difficulties relating to determining these with sufficient precision was one of the reasons why amortisation of goodwill was rejected. The IASB concluded that rigorous and operational impairment testing would result in more useful information than an amortisation approach. For other intangible assets the IASB requires, however, entities to assess whether the useful life of the asset is finite or indefinite. Only when the useful life is assessed to be indefinite, the asset should not be amortised but tested for impairment annually and whenever there is an indication that the intangible asset may be impaired.

[Q5-1] Do you think there are conceptual reasons for adopting the same approach for goodwill as for other intangible assets regarding amortisation?

☐ Yes

☐ No. Please state the rationale:

IAS 38 does not require amortization of intangible assets with indefinite useful lives, if there is no foreseeable limit on the period during which an entity expects to consume the future economic benefit embodied in an asset. This is because amortization of that asset over, for example, an arbitrarily determined maximum period would not be representationally faithful.

As stated in its response to Q4 in the questionnaire, the ASBJ staff thinks, given that the goodwill largely represents an excess earning power, the value of goodwill will depreciate through competition with others over a period of time, and it is not necessarily true that there is no foreseeable limit on the period. As such, the staff does not believe that acquired goodwill is necessarily considered to be an intangible asset with indefinite useful life. If acquired goodwill is accounted for consistently with intangible assets with indefinite useful lives, the effect of the decrease in their values may be dismissed in financial reporting.

The ASBJ staff acknowledges the difficulties in predicting the period over which the acquired goodwill will be consumed. At the same time however, it is seldomly possible (if not impossible) to continuously identify the depreciated values through impairment testing. Therefore, on balance, the ASBJ staff thinks that it is more reasonable to require amortization of acquired goodwill over the period it will be consumed, while requiring impairment testing as necessary.

IAS 36 *Impairment of Assets* requires that all impairment losses recognised in accordance with the standard shall be reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. The only exception is that goodwill impairment losses shall never be reversed. The standard states that “[a]ny increase in the recoverable amount of goodwill in the periods following the recognition of an impairment loss for that goodwill is likely to be an increase in internally generated goodwill, rather than a reversal of the impairment loss recognised for the acquired goodwill”.

[Q5-2] Do you have any concerns regarding the prohibition against reversing goodwill impairment losses?

☐ No

☒ Yes

Please explain the rationale for your opinion:

Some think that impairment of acquired goodwill has the effect of allocating the amount (cash outflows in the case of business combination in exchange for cash) over the period in which it is consumed, so that resulting expense will match associated revenues in the statement of comprehensive income. In this vein, the impairment may be considered to be a method of cost allocation under the historical cost convention rather than re-measurement. Some also consider that once impaired, the remaining balance after deducting an impairment loss becomes the new cost basis. Following that thought, even if there are increases in the recoverable amount of goodwill in the periods after the recognition of impairment loss for that goodwill, the impairment losses should not be reversed.

Furthermore, reversal of impairment losses attributable to acquired goodwill may give rise to recognition of internally generated goodwill, unless an entity can clearly separate the extent to which a subsequent increase in the recoverable amount of goodwill is attributable to the recovery of the acquired goodwill within a CGU and an increase in the internally generated goodwill within the unit subsequent to the acquisition. However, as explained in BC 189 of IAS 36, the ASBJ staff thinks separating these two elements is seldomly possible (if not impossible). Therefore, the ASBJ staff thinks that reversal of impairment losses on acquired goodwill should be prohibited.

Effects of goodwill impairments versus amortisation through the economic cycle

In the US, some studies have been carried out to try to explain the effects of the discontinuation of goodwill amortisation. The studies revealed that:

a. the amount of goodwill in the financial statements has increased;
b. in many cases, companies wrote off more than 70% of the goodwill balance when they assessed goodwill to be impaired.

The recent financial crisis put pressure on the impairment tests to reveal the underlying economic reality of the reporting entities. In times of recession, the drops in profitability may become large enough to lead to goodwill impairment. It could also lead people to think again about effects of goodwill impairment versus amortisation in times of economic booms.

Sometimes goodwill impairments occur when the benefits generated by the goodwill have already expired. In these circumstances it can be argued that the accounting model of IFRS 3 could be pro-cyclical. When an entity acquires another business, its profit will, absent goodwill amortisation and impairment losses, increases by the profit generated by the acquired business and any synergies. Some may therefore consider that in periods of economic booms the absence of goodwill amortisation may give a wrong impression that business combinations are highly profitable. This perceived high profitability may encourage entities to pay higher prices for businesses which may result in recognising even more purchased goodwill. These pro-cyclical effects may result in higher impairment being needed during downturns, which would contribute to worsen the downturns.

Others may consider that in theory the impairment test of goodwill should anticipate the decrease in economic cycles, as the entity should be able to anticipate the future decline of operating profits. Impairment losses should thus not be reported more frequently in periods of low operating profits and would therefore not generally make poor years worse. Following this view, impairment tests may be neutral or even counter-cyclical, assuming that impairment tests are based on an “expected loss” approach. In this view the financial statements reflect the economic cycle but do not drive it. However, it may also be considered that a downturn in the economic cycle cannot be easily anticipated because it depends on too many contingent factors and interactions.

Finally, some may consider that financial statements are only a minor contributing factor to pro-cyclical behaviour. Instead they believe that pro-cyclicality is mainly caused by accumulated information about the economic prospects gathered from a range of different sources.

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[Q6] Do you think that the impairment of goodwill, when amortisation is not permitted, could be considered pro-cyclical or do you think that goodwill impairment losses represent the normal evolution of the economic cycle (i.e. is "neutral")?

☐ Goodwill impairment losses are "neutral" (please explain why this is your view)

☐ Goodwill impairment losses are pro-cyclical (please explain why this is your view)

Please provide the rationale for your view:

If you think that goodwill impairment losses are pro-cyclical:

Do you think amortisation of goodwill would reduce the effect of pro-cyclicality?

☐ No

☐ Yes

Do you envisage other possible solutions to overcome the problem related to pro-cyclicality?

☐ No

☐ Yes (please explain)

Under the IASB's Conceptual Framework, the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity (paragraph OB2), since many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose reports for the financial information they need (paragraph OB5).

Although the Conceptual Framework acknowledges the cost constraint on useful financial reporting (paragraph QC35-QC39), macro-economic effects are broader concept than those envisaged in the chapter.

In addition, the IASB Due Process Handbook explains that the IASB weighs effect analysis considerations as a part of its deliberation when considering and drafting its analysis of likely effects, but it is rarely possible to make formal quantitative assessment of the effects of IFRSs. Consideration of macro-economic effects is not identified as one of the necessary steps in the explanation of the Handbook.

Thus, although accounting standard setters normally strive to identify possible consequences in the standard setting process either formally or informally, the ASBJ staff does not think that development of accounting standards should be influenced by possible macro-economic effects including whether a particular accounting treatment has pro-cyclical effects on the macro economy.

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PART 3

Costs of application of the impairment tests of goodwill

Description of the issue

The application of impairment test rules may be highly challenging because it requires a lot of estimates according to the IAS 36. For example, US private companies expressed many times concerns about the cost and complexity of performing the goodwill impairment test, leading FASB to amend the requirement to test business units to which goodwill is allocated at least annually.

[Q7] Are the costs of performing the impairment test of goodwill significant?

☐ No

☐ Yes, if so, do you believe that these costs are more related to the complexity of IAS 36 or to the fact that impairment tests have to be made at least annually?

  ☐ More related to the complexity of IAS 36.

  ☐ More related to the frequency of the impairment test.

[Q8] In your opinion are those costs proportionate to the importance of the information as given by financial analysts? Please explain why those costs are not proportionate.

☐ Yes

☐ No. Please explain why:

[Q9] How do you think it would be possible to reduce the costs of performing the impairment test of goodwill or increase the relevance of the accounting information on the impairment of goodwill? (please specify)

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[Q10] From your experience with the application of IAS/IFRS standards, do you consider the estimation of the recoverable amount of goodwill more challenging – and burdensome – than the estimation of the pattern of consumption of goodwill (including estimation of the useful life)?

☐ Estimation of the recoverable amount is the most burdensome.

☐ Estimation of the pattern of consumption (including the useful life) is the most burdensome.

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PART 4

<u>Auditability of application of the impairment tests of goodwill</u>

<u>Description of the issue</u>

IAS 36 requires that goodwill acquired in a business combination shall be allocated to each of the acquirers' cash-generating units or groups of cash-generating units (CGUs). An entity shall then test whether the recoverable amount of the CGU is less than carrying amount of the CGUs. Estimation of the recoverable amount is particularly highly subjective, and some argue that it is difficult for auditors to challenge management assertions due to the less information available to auditors compared with the management. Some have pointed out that the impairment losses might be used for the earnings management by cherry-picking the periods in which to recognise impairment losses.

[Q11] Do you find that it is difficult for auditors to challenge management assertions with regard to impairment testing which entails goodwill?

☐ No

☐ Yes, if so, please state the areas that you find difficult.

[Q12] If you answer 'Yes' to Q11, please state your views about how the auditability of impairment testing could be enhanced.

PART 5

Academic or institutional research relating to the impairment of goodwill

Description of the issue

Subsequent to the issuance of SFAS 141/142 in 2001 and IFRS 3 in 2004, a number of academic or institutional research projects have been carried out to ascertain whether the impairment-only approach to the goodwill provides most useful information to users of financial reporting. As mentioned earlier, we have carried out limited reviews of researches which investigate this topic, yet we may have overlooked the most relevant studies for our research purpose.

[Q13] Have relevant studies been performed in your jurisdiction on the value relevance of the goodwill impairment and on the analysis of the accounting for goodwill? If so, please identify the name and source of the most relevant studies.