

UKEB FEEDBACK STATEMENT

IASB DP/2020/1 Business Combinations: Disclosures, Goodwill & Impairment

3 March 2021

Following the UK's exit from the European Union, the Department for Business, Energy and Industrial Strategy (BEIS) is setting up the UK Endorsement Board (UKEB) to fulfil statutory functions of influencing the development and subsequent adoption of International Accounting Standards for use in the UK. The UK EB secretariat has begun influencing activities in preparation for the delegation of those statutory functions to the UK EB.

This feedback statement forms part of those influencing activities. The views expressed by the UK EB secretariat in this feedback statement are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards to be provided to the Secretary of State or the UKEB, once powers have been delegated.

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Foreword



“The UKEB secretariat welcomes the significant interest in its response to the IASB’s *Business Combinations: Disclosures, Goodwill and Impairment* discussion paper.

During the outreach on this project, the team engaged with 175 participants from a range of stakeholder groups. The thoughtful and informative comments from respondents helped us reach our final view.

The insights and perspectives shared demonstrate the importance of this project to our community.

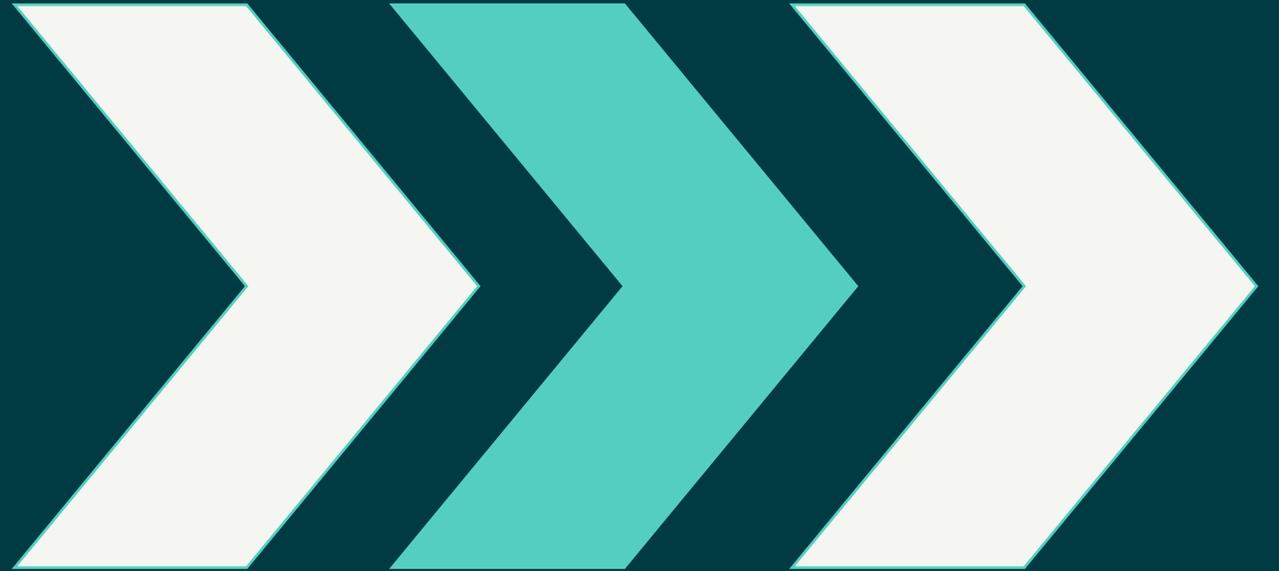
Respondents shared diverse views on the IASB’s proposals, and many recognised that the impairment and amortisation models are not mutually exclusive.

This feedback statement outlines the stakeholder views we heard and how they informed our final position. In sharing these, we hope to contribute to future debate and exploration of this important topic.”

Pauline Wallace,
Chair, UK Endorsement Board

Purpose of this feedback statement

This feedback statement presents the views of UK stakeholders heard during the UKEB secretariat's outreach activities on the IASB's DP/2020/1 *Business Combinations: Disclosures, Goodwill and Impairment* and explains how the UKEB secretariat's comment letter addressed those views.



Background to the IASB's Discussion Paper

The IASB's objective in undertaking this project was to explore whether companies can, at a reasonable cost, provide investors with more useful information about acquisitions.

The IASB's Discussion Paper examined the role of enhanced disclosures, goodwill measurement, and separate recognition of intangible assets in improving information on acquisitions.

The Discussion Paper also set out IASB's preliminary views on these topics.



IASB's main proposals

1. Disclosures: improve disclosures

IASB recommended improving accountability for acquisitions through disclosures on pre-acquisition expected benefits and post-acquisition performance.

2. Subsequent measurement of goodwill: retain impairment-only model

IASB discussed the relative merits of the amortisation-only and impairment-only models for the subsequent measurement of goodwill. It concluded that the impairment-only model should be retained.

3. Impairment test: simplifications

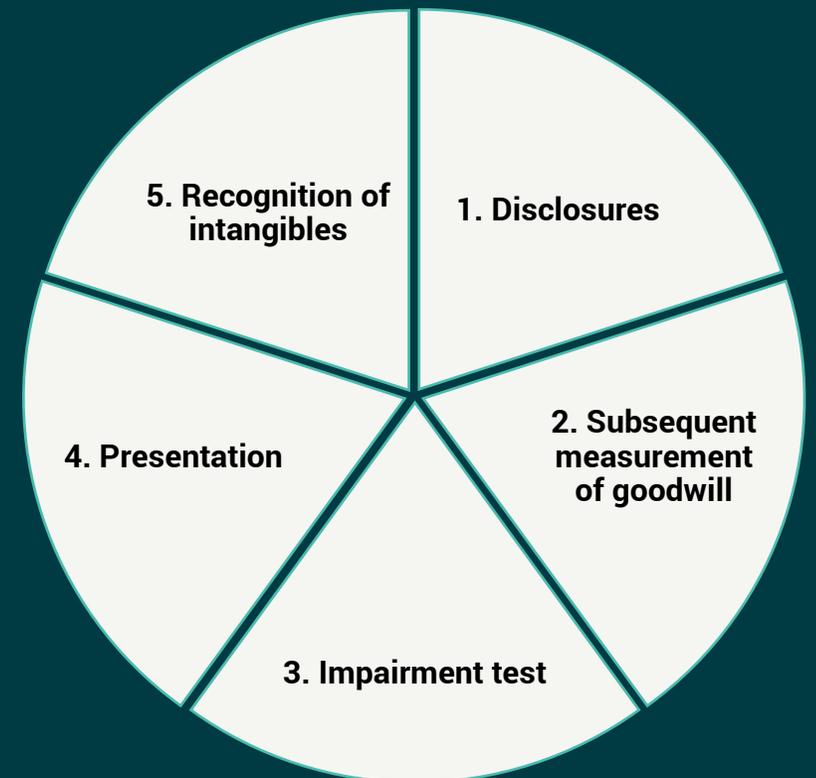
IASB proposed moving to an indicator-only impairment test. It also recommended allowing cash flows from uncommitted restructurings and asset enhancements to be included in the assessment of value in use and allowing the use of post-tax discount rates.

4. Presentation: present total equity excluding goodwill

IASB proposed presentation of total equity excluding goodwill on the balance sheet.

5. Recognition of intangibles: retain existing criteria

IASB recommended retaining existing recognition criteria for intangibles acquired in a business combination.



UKEB secretariat's comment letter

The UKEB secretariat's comment letter expressed the following views on IASB's main proposals:

1. IASB proposal: improve disclosures about acquisitions.

The UKEB secretariat supported the stewardship objective underpinning the proposals but asked the IASB to consider illustrative examples and field-testing to assess the practicality of the proposed disclosures for preparers and their usefulness for investors.

2. IASB proposal: retain the impairment-only model for subsequent measurement of goodwill.

The UKEB secretariat proposed that a mixed model - where an annual amortisation charge is accompanied by an annual indicator-only impairment test – would provide a more faithful representation of goodwill after initial recognition.

3. IASB proposal: move to indicator-based impairment testing.

The UKEB secretariat expressed concern that moving to an indicator-only impairment test without a mixed model would risk overstatement of goodwill.

4. IASB proposal: present total equity excluding goodwill on the balance sheet.

The UKEB secretariat considered that presenting total equity less goodwill on the face of the balance sheet would not provide decision-useful information.

5. IASB proposal: retain existing recognition criteria for other intangible assets at acquisition

The UKEB secretariat supported the proposal to retain the current recognition criteria for other intangibles recognised at acquisition but recommended a separate future project to review the accounting for intangibles more broadly.

Outreach approach

The UKEB secretariat's outreach activities took place between September 2020 and January 2021.

The outreach approach was underpinned by the UKEB's guiding principles of thought leadership, transparency, independence, and accountability.

Outreach activities included public consultation through a joint IASB panel event and public consultation on the UKEB secretariat's draft comment letter.

In addition, the UKEB secretariat held a series of roundtables and interviews with a range of stakeholder groups in order to obtain a balanced range of views on the IASB's proposals and on the UKEB secretariat's recommendations.

The stakeholder groups included retail investors, institutional investors, preparers, and audit firms.

Outreach activities resulted in a wide range of comments and views on the IASB's proposals from investors, preparers, audit firms, professional bodies, and academics. All comments and views were considered in reaching our final position.

We also exchanged views with other national standard setters.

Disclosures

IASB proposals, stakeholder views, and UKEB secretariat position



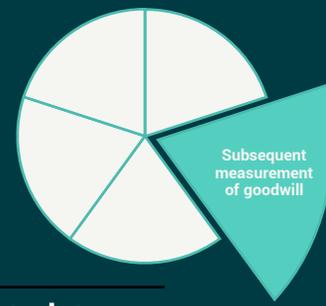
IASB proposals on improving disclosures	Stakeholder views*	UKEB secretariat draft position	UKEB secretariat final position
Disclose objectives, targets and metrics for the acquisition	Diverse: support for improved accountability, but concerns about commercial sensitivity and volume of disclosures	Field-testing needed to balance usefulness for users with practicalities for preparers	
Disclose subsequent performance against objectives, targets and metrics based on information reviewed by CODM	Diverse: support for relevant information, but concerns that information on material acquisitions may not be captured	Support	Recommend disclosures required for all material acquisitions
Disclose anticipated synergies at acquisition	Diverse: support for improved accountability, but concerns about commercial sensitivity, and auditability	Do not support – judgemental, challenging to audit, commercially sensitive	
Disclose pro-forma ' <i>operating profit before acquisition-related transaction and integration costs</i> '	General support	Support – provides relevant information	
Disclose pro-forma operating cash flow	Diverse: support for relevant information, but concerns about implications for cost and systems implications	Field-testing needed to balance usefulness for users with practicalities for preparers	

Stakeholders expressed support for the UKEB secretariat's recommendations to define synergies, define '*operating profit before acquisition-related transaction and integration costs*', and to disclose when monitoring an acquisition stops together with the reason why it stops.

* Includes stakeholder views from all outreach activities

Subsequent measurement of goodwill

IASB proposals, stakeholder views and UKEB secretariat's position



IASB proposals on subsequent measurement of goodwill	Stakeholder views*	UKEB secretariat draft position	UKEB secretariat final position
Retain the impairment-only model	Diverse: some stakeholders supported a mixed model whilst others supported amortisation-only or impairment-only models. Small minorities supported permanent capitalisation or write-off through reserves.	Recommend a mixed model, where impairment testing is supported by an annual amortisation charge, with additional recommendations to address issues of shielding and optimism (see note 1 below).	
Do not explore arguments for the introduction of goodwill amortisation	Many stakeholders acknowledged the results of our research, which showed that under the impairment-only model, goodwill balances are a significant and growing part of UK FTSE 350 balance sheets.	A mixed model would provide a more faithful representation of goodwill as a wasting asset. It would reduce the risk of inflated goodwill balances due to shielding and optimism.	

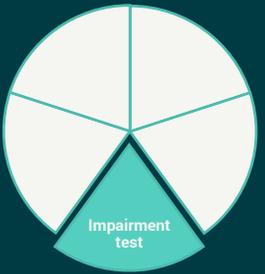
1. There was some stakeholder support for UKEB secretariat recommendations to address the issues of shielding and optimism leading to potential overstatement of goodwill balances. These recommendations were to disclose:

- How discount rates have been derived, differentiating between CGUs with different risk profiles
- Possible changes to key assumptions in the recoverable amount calculation and the impact of those changes on recoverable amount
- How CGUs have been identified and whether that has changed from the prior period
- Additional detail for each CGU or group of CGUs with allocated goodwill with a significant carrying amount when compared to the entity's total net assets excluding goodwill

* Includes stakeholder views from all outreach activities

Impairment test

IASB proposals, stakeholder views, and UKEB secretariat position



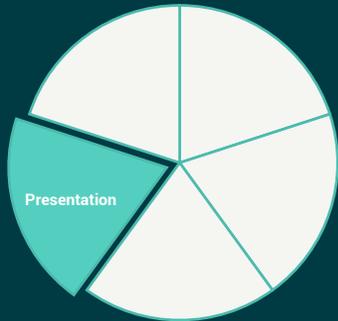
IASB proposals on simplifying the impairment test	Stakeholder views*	UKEB secretariat draft position	UKEB secretariat final position
Move to indicator-only impairment testing	Diverse: support for potential cost savings, but concerns about potential lack of rigour and that cost savings may be marginal	Do not support but asked for stakeholder views on scale of likely cost savings	Do not support
Remove the requirement to exclude any estimated future cash inflows or outflows from uncommitted restructurings or asset improvements from the value in use calculation	Diverse: support for more relevant information, but concerns about potential lack of rigour	Support, with recommendations: <ul style="list-style-type: none"> Expected values are used to incorporate risk into the cash flows For comparability, either mandate the inclusion of cash flows from uncommitted restructurings or asset improvements, or require disclosure when they have been included 	
Allow either a pre-tax discount rate or a post-tax discount rate to be used in the value in use calculation	Support	Support, provided that the rate chosen is consistent with the cash flows	

The UKEB secretariat recommended that IASB develops principles on identifying cash-generating units and on allocating goodwill to them. This recommendation was supported by some stakeholders.

* Includes stakeholder views from all outreach activities

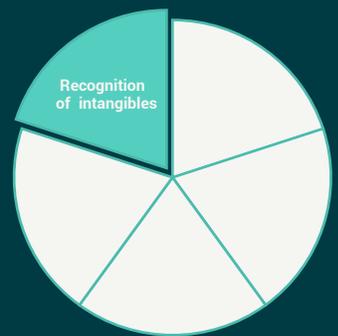
Presentation and intangible asset recognition criteria

IASB proposals, stakeholder views and UKEB secretariat's position



IASB proposal	Stakeholder views*	UKEB secretariat draft position	UKEB secretariat final position
Present total equity excluding goodwill in the statement of financial position	Do not support because implies goodwill is not an asset or that its measurement is not reliable	Do not support because implies goodwill is not an asset or that its measurement is not reliable	

The UKEB secretariat recommended the disclosure of carrying amount of goodwill, analysed by material acquisition. Most stakeholders supported this recommendation.



IASB proposal	Stakeholder views*	UKEB secretariat draft position	UKEB secretariat final position
Retain existing recognition criteria for intangible assets acquired at recognition	Support	Support	Support

The UKEB secretariat recommended a separate future project on intangibles. Most stakeholders supported this recommendation.

* Includes stakeholder views from all outreach activities

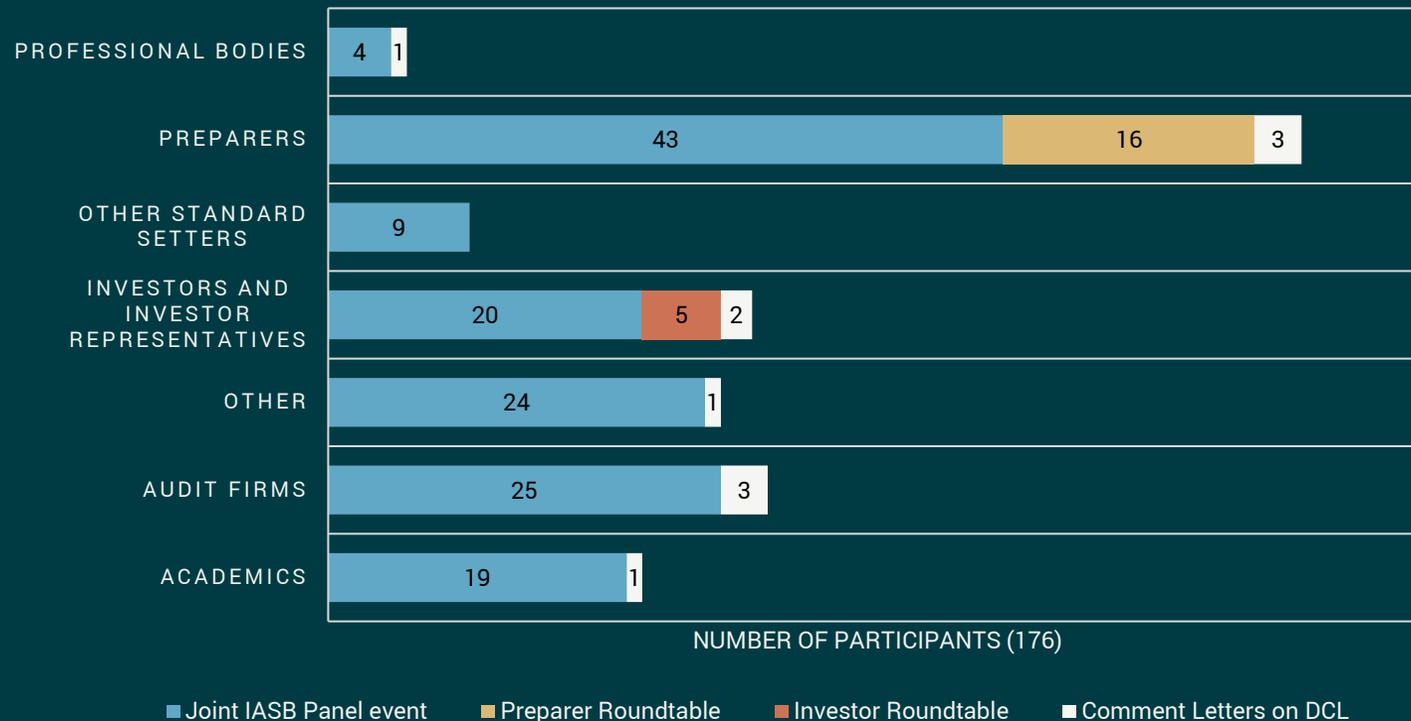
Outreach events and participants

In total, 176 stakeholders participated in outreach activities.

The table provides an analysis of participants by outreach activity and by type of organisation represented.

Comment letters received are published on the UKEB website [here](#).

ANALYSIS OF PARTICIPANTS



Disclaimer

This feedback statement has been produced in order to set out the UKEB secretariat's response to stakeholder comments received on the IASB's *Business Combinations: Disclosures, Goodwill and Impairment* Discussion Paper DP/2020/1 and should not be relied upon for any other purpose. The views expressed in this feedback statement are those of the UK Endorsement Board secretariat at the point of publication. Any sentiment or opinion expressed within this feedback statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB or the Secretary of State.

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