

UKEB research project
Subsequent Measurement of Goodwill

Field testing briefing pack

Contents

Introduction	3
How to take part in field-testing	3
Confidentiality	3
Background to the UKEB research project	4
Project timeline for the UKEB research project	5
Field-testing process and indicative timeline	7
Field-testing deliverables	8
Field-testing questionnaire	10

Introduction

The [UK Endorsement Board](#) (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IASB on the development of new standards, amendments and interpretations.

The UKEB is undertaking a [research project](#) to analyse the impact of potential changes to the subsequent measurement of goodwill under IFRS.

The project will help the UKEB to further influence and inform the IASB as it redeliberates the feedback on its Discussion Paper *Business Combinations: Disclosures, Goodwill and Impairment*.

This briefing pack provides an overview of the research project and details of the field-testing stage of the project. Field-testing provides stakeholders with the opportunity to contribute to the debate on the subsequent measurement of goodwill.

How to take part in field-testing

If you are a UK IFRS-preparer and would like to take part in field-testing, please email contact@endorsement-board.uk to register to take part. We will then contact you to arrange an initial meeting.

If you would like any further information on field-testing or have any questions, please email contact@endorsement-board.uk.

Thank you for your interest in the field-testing stage of the project.

Confidentiality

Any information shared publicly about the results of fieldwork will not allow identification of individual participants. Any published research papers will, however, list respondent organisations in an appendix, unless you ask us to exclude your organisation's name when you submit your field-testing response.

Background to the UKEB research project

At £391bn, goodwill represents 51% of net assets for UK FTSE 350 and AIM reporters. Accounting for goodwill after its initial recognition is a topical issue, featuring on the IASB's agenda and the focus of a recent global report by the [CFA Institute](#).

The UKEB's [research project](#) aims to explore the potential impact for UK stakeholders if the IASB's current impairment-only model for the subsequent measurement of goodwill were to change to a hybrid model. Under the hybrid model, impairment testing would be supported by an annual amortisation charge, with context provided by supporting disclosure.

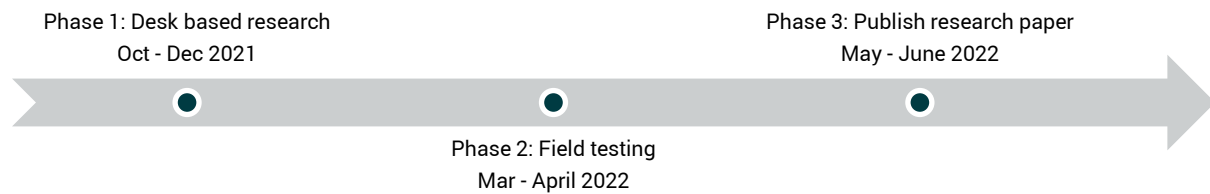
Empirical evidence included in the UKEB Secretariat's 2021 [response](#) to the IASB's [Discussion Paper Business Combinations: Disclosures, Goodwill and Impairment](#) showed that:

- Goodwill had increased by 69% for the FTSE 350 since the introduction of an impairment-only model for UK IFRS reporters in 2005.
- Under the impairment-only model, goodwill was not impaired as might have been expected given changing economic conditions, such as the 2008 global financial crisis.
- The impairment-only model could be leading to over-inflation of balance sheets.

Our response recommended exploring a hybrid model for the subsequent measurement of goodwill because:

- Amortising goodwill provides a faithful representation of those goodwill assets whose benefits are consumed over time. Statement of profit or loss information under a hybrid model would provide relevant information through a faithful representation of the economic benefits consumed in the period.
- Amortisation requires subsequent measurement of individual goodwill balances, and therefore mitigates the shielding effect which arises under the impairment-only model, where goodwill balances can be allocated to large CGUs.
- Disclosures on management's assumptions about the useful life of goodwill could provide relevant information about the expected economic benefit consumption pattern to users of financial statements.
- A hybrid model could reduce the risk of financial shock due to delayed recognition of impairments.
- If goodwill were split into components for amortisation purposes, the amortisation charge and related disclosures could provide investors with further relevant information and a more faithful representation of the underlying economics following each acquisition.
- A hybrid model would provide more consistency with the subsequent measurement of tangible non-current assets, and there is no clear conceptual basis for a different reporting treatment.
- Recognising goodwill as an asset supports the stewardship function of financial statements and helps to hold management to account for acquisitions.

Project timeline for the UKEB research project



Phase 1: Desk based research

Phase 1 of the UKEB research project on subsequent measurement of goodwill was completed in Q4 2021 in response to a request from IASB staff. It explored whether potential changes to the subsequent measurement of goodwill would affect financial stability for UK IFRS reporters.

We conducted desk-based research, including a public survey for UK IFRS preparers, to assess the impact of the potential changes on statements of financial position, covenant terms, distributable profits, taxation, and compliance with market regulations.

Based on the evidence, we concluded that potential changes to the subsequent measurement of goodwill would:

- Potentially have a material impact on the financial position of UK IFRS reporters if amortisation of existing goodwill balances were required.
- Be unlikely to have a major impact on financial stability or lead to major operational changes for UK IFRS reporters.

An exploration of subsequent measurement of goodwill under UK GAAP, which currently mandates a hybrid model, highlighted that specific and relevant factors are applied in determining the useful life of goodwill for amortisation purposes under UK GAAP.

We published our [findings](#) from phase 1 in December 2021.

Phase 2: Field-testing

The field-testing phase of the project is scheduled to take place in March – April 2022 and has been designed to provide insight into:

- Whether transition to a hybrid model for subsequent measurement of goodwill would improve reporting outcomes.
- How potential transitional arrangements to a hybrid model for the subsequent measurement of goodwill might be implemented in practice.
- The cost and resource implications of a potential transition to a hybrid model for the subsequent measurement of goodwill.

Field-testing participants are requested to:

- Prepare restated financial statements extracts, assuming retrospective application of a hybrid model for subsequent measurement of goodwill on transition.
- Provide more detailed information about the components of their goodwill and how their useful life could be determined.
- Complete a field-testing questionnaire.

Further details of field-testing deliverables are on page 8.

The results from field-testing will supplement the evidence we gathered during desk-based research and inform our future input into the IASB's project.

Phase 3: Publish research paper

In the final phase of the project, the UKEB will consider publication of a research paper.

Any information shared publicly about the results of fieldwork will not allow identification of individual participants. Any published research papers will however list respondent organisations in an appendix, unless you ask us to exclude your organisation's name when you submit your field-testing response.

Field-testing process and indicative timeline

Process

1. Preparers are provided with this briefing pack, and have the opportunity of an initial meeting with the UKEB project team to answer any questions.
2. Preparers then field-test potential transitional arrangements from an impairment-only model to a hybrid model for the subsequent measurement of goodwill. Field-testing deliverables are described on page 8.
3. The time required to complete field-testing will vary from organisation to organisation depending on the components of goodwill, internal processes and systems, and existing levels of disclosure.
4. There is an optional check-in meeting during the field-testing period. Additionally, preparers are welcome to contact the UKEB project team during the field-testing period with any queries.
5. At the end of the field-testing period, preparers are kindly asked to submit the deliverables to the UKEB project team, with the opportunity to hold a debrief meeting to highlight any key conclusions and clarify any outstanding points.
6. Once the field-testing deliverables have been analysed and anonymised by the UKEB Secretariat, roundtables will be held with auditors, investors and academics to explore key themes. Any information shared at the round-tables about the results of fieldwork will not allow identification of individual participants.

Indicative timeline

Step	Week commencing
Field-testing briefing pack sent to preparers	28 February 2022
One-to-one kickoff meetings with preparers (optional)	28 February 2022 & 7 March
One-to-one check-in meetings with preparers (optional)	14 March 2022
Preparers submit field-test deliverables One-to-one debrief meeting with preparers (optional)	28 March 2022
Roundtables for auditors, investors and academics	4 April 2022

Please note that the above timeline is indicative. It may be possible to flex the timeline to suit your availability.

Please email us at contact@endorsement-board.uk to explore alternative timelines if you are a UK IFRS preparer who would like to take part in field-testing but are unable to accommodate the indicative timeline.

If you are a UK auditor, investor or academic and would like to take part in a round-table, please email contact@endorsement-board.uk to register your interest. We will then contact you with available dates.

Field-testing deliverables

We kindly request field-testing participants to provide:

1. An analysis, by business combination, of the carrying value of goodwill in your organisation's latest published financial statements, subject to usual materiality constraints.
2. Retrospective determination of the useful life of goodwill for each business combination separately identified in the analysis in (1) above. The determination of the useful life of goodwill should:
 - a. Identify and explain the factors considered in determining the useful life of goodwill; which factors you considered relevant and why; and how a weighting was assigned to each factor. A list of potential factors to consider is included in the field-testing questionnaire.
 - b. Where applicable and feasible, for the gross goodwill which arose on each business combination identified in the analysis in (1) above:
 - i. Identify the material components of that gross goodwill (e.g., anticipated synergies, value of assembled workforce, speed to market)
 - ii. Ascribe a value to each material component
 - iii. Determine the useful life of each material component (including whether any of the material components have an indefinite useful life)
 - iv. Calculate the amortisation charges that would have been made since acquisition had a hybrid model been used during that period

If it is not possible to retrospectively determine the useful life of goodwill for all business combinations identified in the analysis in (1) above (for example due to lack of historic records) please complete to the extent practicable.

3. Primary financial statement extracts showing the effects on all line items restated from retrospectively applying the hybrid model:
 - a. Goodwill restated as if the hybrid model for subsequent measurement of goodwill had been in place from the date of the business combination.
 - b. Retained earnings correspondingly restated.
 - c. Any other affected line items in the primary financial statements restated.

Restatement should be to the earliest prior period presented in your organisation's most recent financial statements. If this is not feasible, for example due to lack of resource, please complete to the extent practicable.

Field-testing outputs are not intended to be as precise or complete as published financial information. You may need to use simplifications, assumptions and approximations during field-testing. If this is the case, please note those simplifications, assumptions and approximations and include those notes with your field-testing response.

4. Disclosures and supporting data

Subject to usual materiality constraints, please provide:

- a. Analysis of total goodwill in a single table, disclosing separately for each business combination as if the hybrid model for subsequent measurement of goodwill had been in place since the date of the business combination:
 - i. Gross goodwill
 - ii. Acquisition date
 - iii. Accumulated amortisation at the start of the most recent reporting period
 - iv. Accumulated impairments at the start of the most recent reporting period
 - v. Impairments charged during the most recent reporting period
 - vi. Amortisation charge for the most recent reporting period
 - vii. Opening carrying value at the start of the most recent reporting period
 - viii. Closing carrying value at the end of the most recent reporting period
 - b. For each business combination:
 - i. An analysis of goodwill into its major components
 - ii. Management's assumptions regarding the useful life of those components, and the rationale for those assumptions
 - c. Total amortisation of goodwill charged during in the financial period, and the line(s) in the statement of profit or loss where it is included.
 - d. Total amortisation of goodwill charged during in the financial period analysed by operating segment and allocation of goodwill to operating segments.
 - e. Any other disclosures you think would provide relevant information to investors.
5. Completed field-testing questionnaire (please see page 10).

Field-testing questionnaire

A. Your details

Name	
Role	
Contact details	
Organisation	
Sector	

B. Determining the useful life of goodwill for amortisation purposes

- Overall, how easy or difficult was it to determine the useful life of goodwill for amortisation purposes? Please briefly explain your answer.

Easy	
Challenging, but possible	
Practically impossible	

- Which of the following factors did you consider in the determination of the useful life of goodwill for amortisation purposes? Please tick all that apply.

The nature of the acquired business	
The expected useful life of identifiable assets acquired and recognised under IFRS	
The expected useful life of benefits acquired which are not recognised separately from goodwill (e.g. assembled workforce)	
The expected timing of the realisation of anticipated income synergies in the future net cash inflows from combining businesses	
The expected timing of the realisation of anticipated cost synergies on future combined cash flows	
Legal, regulatory, or contractual provisions that may affect the useful life of the acquired business	
The anticipated effect of diversified business operations on future consolidated cash flows	
The anticipated effect of acquiring an entity in a defensive acquisition	
The period over which an acquired product is expected to be viable in a market	
The amount of time it would have taken to develop in-house the technology, customer base, or other value acquired through the business combination	
The period over which the acquired entity, on a standalone basis, is expected to maintain higher future cash flows than competitors	

The period over which deferred tax assets arising from the business combination are expected to be recovered	
The price:earnings ratio implied by the purchase price	

3. If you did not consider any of the factors in question 2 to be relevant to a determination of the useful life of goodwill for amortisation purposes, please explain why.
4. Did you consider any additional factors in your determination of the useful life of goodwill for amortisation purposes? If yes, please specify what those factors were.
5. How did you weight each factor in your overall determination of the useful life of goodwill for amortisation purposes?
6. Did you componentise goodwill in order to calculate the overall amortisation charge?

If so, please answer the questions below:

- a. Which components did you identify?
 - b. How did you identify each component?
 - c. How did you value each component?
 - d. How did you determine the useful life of each component?
7. If a hybrid model were introduced, in your view, should a list of factors for consideration when determining of the useful life of goodwill be provided? Please explain the rationale for your answer.
 8. If a hybrid model were introduced, in your view, should minimum and maximum useful lives for goodwill be mandated? Please explain the rationale for your answer.

C. Legacy goodwill

9. If the carrying value of goodwill in your organisation's latest published financial statements comprises goodwill arising on more than one business combination, how easy was it to identify the constituent goodwill balances? Please briefly explain your answer.

Easy	
Challenging, but possible	
Practically impossible	

10. Approximately how many business combinations have given rise to goodwill included in the carrying value of goodwill in your organisation's latest published financial statements?

11. Does the carrying value of goodwill in your organisation's latest published financial statements comprise individually immaterial balances which are material in total?
12. If there were to be a transition to a hybrid model for subsequent measurement of goodwill, in your view would practical expedients be necessary for legacy goodwill?
13. If you answered yes to question 12, please identify what you think those practical expedients should be:

Default amortisation period	
Derecognise legacy goodwill by adjusting opening accumulated profit of the earliest comparative period presented	
Write-off to reserves of the period in which the acquisition occurred	
Other – please specify	

D. Options for transitional arrangements

If a hybrid model were to be introduced, in your view:

14. Should it be introduced prospectively or retrospectively? Please explain your view.
15. If retrospectively, should full retrospective application be required? Please explain your view.
16. If retrospectively, should the extent of retrospective application be at preparers discretion? Please explain your view.

E. Disclosures and supporting data

17. What challenges, if any, did you experience in disaggregating goodwill into its separate components? Did you have all the information that you needed to conduct this exercise? If not, what information was unavailable or difficult to obtain and why?
18. Having applied the proposed disclosures, do you think there are any additional disclosures that should be made which would be useful to users? If so, what are they and how do you anticipate they would be useful?
19. How significant an increase in volume of disclosures would the proposed disclosures lead to, in your view?

F. Reporting outcomes

20. To what extent, in your view, would a hybrid model deliver the anticipated reporting outcomes:

	Not at all	Partially	Significant improvement
Improved stewardship function of financial statements			
More faithful representation of the underlying economics of goodwill			
Improved relevance of information for investors			
Mitigation of the shielding effect through focus on constituent parts of goodwill			
Better comparability between entities growing by acquisition and entities growing organically			
Better comparability between entities investing in goodwill and entities investing in tangible PPE, due to more consistent measurement			

21. Please identify and describe any other benefits you anticipate in terms of reporting outcomes.
22. Please identify and describe any negative reporting outcomes you would anticipate as a result of the potential transition.
23. Did application of the hybrid model have a material effect on reported profits?
24. Did application of the hybrid model have a material effect on net assets?
25. Based on the financial statement extracts prepared, would a transition to a hybrid model for the subsequent measurement of goodwill have any adverse consequences for any of the following:

Compliance with debt covenants	
Regulatory compliance	
Management compensation schemes	
Distributable profits (where goodwill has arisen on trade and assets purchases)	
Other – please specify	

G. Audit

26. What information do you think you would need to provide to your auditors under the hybrid model? How would it compare to the information you currently provide?
27. How do you think a transition to a hybrid model would affect your audit process?

28. What are the likely implications for the cost of audit, on initial transition and on an ongoing basis?

H. Process and cost implications

29. If transition to a hybrid approach went ahead, what changes if any would you need to make to systems and processes?

30. What are the implications of any potential changes identified in your answer to question 29 in terms of time, resource and cost?

31. Overall, how would the cost of a hybrid model compare to the cost of an impairment-only model on an ongoing basis, in your view?

I. Overall conclusions and comments

32. Based on the field-testing experience, would you support a transition to a hybrid approach for the subsequent measurement of goodwill? Please give reasons for your answer.

33. Please provide any further comments below.