Consultation on Goodwill

The Board

OF THE

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

CR02/2023	**JUNE 2023**

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- Send comments to **k.nathanail@iosco.org**
- The subject line of your message must indicate '***Public Comment - Consultation on Goodwill***'.
- If you attach a document, indicate the software used (e.g., Microsoft WORD, ASCII text, etc.) to create the attachment.
- Do not submit attachments as HTML, PDF, GIFG, TIFF, PIF, ZIP or EXE files.

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Send 3 copies of your hardcopy comment letter to:
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Your comment letter should indicate prominently that it is a '*Public Comment - Consultation on Goodwill*".

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Executive summary

Since the financial crisis, the total balance of accumulated goodwill of the S&P 500 has more than doubled from USD 1.6 trillion in 2008 to USD 3.7 trillion in 2021. An increasing trend was also observed in the European Union where the total amount of goodwill reported by 1,477 listed companies increased by almost 50% - from EUR 1.1 trillion in 2013 to EUR 1.6 trillion in 2019.

In active merger and acquisition (M&A) periods, acquisition prices tend to be higher, and as a result, the balance of goodwill has grown. Under current global accounting standards goodwill is not amortized and is tested for impairment at least annually. A concern expressed by some stakeholders is that management may use optimistic assumptions in estimating the recoverable amount to reduce the instances where impairment losses that will negatively impact profitability are recognized. As a result, impairment losses may not always be recognized adequately or on a timely basis. In such situations, it is only when the financial performance of a company deteriorates that the company recognizes impairment losses and reduces goodwill significantly. This is referred to "too little, too late." In other situations, the decline in performance may occur slowly over a period of time resulting in "close call" situations in advance of an impairment (i.e., the excess of the recoverable amount and the carrying amount is declining over time until there is no longer an excess thereby triggering the goodwill impairment recognition) but with a lack of transparent disclosure about the close call scenario.

The economic environment that issuers face changes continually. It is important that management carefully and objectively assesses the current economic environment so that it is faithfully reflected in the assumptions used in the goodwill impairment tests.

It is critical that the application of financial reporting standards result in fair presentation of the financial position, performance and cash flows of the company for the benefit of investors, and this includes the accounting and disclosure for goodwill.

We support the IASB's plans to enhance disclosures so that investors receive better information to support their assessment of the performance of an acquisition and more effectively hold management to account for its acquisition decisions. We also encourage the IASB to look for opportunities to improve the impairment tests.

To help IOSCO in its development of recommendations for consideration by the IASB, we ask issuers, audit committees (or those charged with governance [TCWG]), investors and other financial statement users, and external auditors to provide input to this consultation report.

Chapter 1 - Introduction

Goodwill is an asset arising from a business combination when a company obtains control over a business with the purchase price being greater than the value assigned to the identifiable net assets of the acquired business.

Although it is recognized as an asset that represents future economic benefits arising from an acquisition, goodwill is not separable from other assets of the business unlike identifiable assets. In accordance with the model used in the International Financial Reporting Standards (IFRS Accounting Standards), goodwill is not subject to amortization but is instead subject to an annual (or more frequent, when there are indications of potential impairment) impairment test.

1.1. Accumulation of Goodwill

Since the financial crisis, the total balance of accumulated goodwill of the S&P 500 has more than doubled from USD 1.6 trillion in 2008[1] to USD 3.7 trillion in 2021.[2] A similar trend was also observed in the European Union where the total amount of goodwill reported by 1,477 listed companies increased by almost half - from EUR 1.1 trillion in 2013 to EUR 1.6 trillion in 2019.[3]

One of the driving forces for the accumulation of goodwill is the active merger and acquisition (M&A) market during this period. As a result of the easing of monetary policies after the financial crisis, financially strong companies were able to access funding more easily and at a less-costly amount, which in turn allowed them to finance their M&A activities and to scale up their business. Although the M&A market was disrupted by the onset of the COVID-19 pandemic, the market bounced back quickly in 2021. In active M&A periods, acquisition prices tend to be higher, and as a result, the balance of goodwill has grown. Consequently, there is a risk that goodwill balances continue to accumulate over time even when the economics do not justify this.

1.2. Issues Identified by IOSCO

Under the IFRS Accounting Standards, goodwill is impaired when the recoverable amount (i.e., the higher of fair value less costs of disposal and its value in use) of a cash-generating unit (CGU) or group of CGUs to which the goodwill is allocated is less than its carrying amount. The determination of the recoverable amount of a CGU or a group of CGUs requires the use of significant management judgements and estimates. Accordingly, it creates challenges for audit committees (or those charged with governance [TCWG]), external auditors and regulators. There is a risk that management may use optimistic assumptions in estimating the recoverable amount, which in some circumstances may be motivated by a reluctance to

1 Source: https://www.ifrs.org/news-and-events/2018/12/speech-are-we-ready-for-the-next-crisis/

2 Source:https://news.bloombergtax.com/financial-accounting/how-goodwill-accountings-makeover-hits-s-p-500-in-six-charts

3 EFRAG - Evolution of goodwill for entities listed on EU exchanges - Issues Paper 2021 - https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2101201620495169%2F02-03%20Issues%20paper%20on%20the%20evolution%20of%20goodwill%20on%20EU%20exchanges%20EFRAG%20Board%2021-01-26.pdf

recognize impairment losses that will negatively impact profitability. As a result, there may be circumstances where impairment losses are not recognized adequately or on a timely basis. In such situations, it is only when the financial performance of a company deteriorates significantly (and there is no shielding due to the good performance of other components of the CGU to which goodwill is allocated) that the company recognizes impairment losses and reduces goodwill significantly, although declining expectations of future performance may have been evident in earlier years. This is referred to by some as "too little, too late." In this sense, it is sometimes said that goodwill carries "hidden losses" that are not recognized until a dramatic decline in profitability or cash flows occurs. Additionally, there may be circumstances where a company's performance is declining but there is still an excess of the recoverable amount over the carrying amount of a CGU or group of CGUs – sometimes referred to as a "close call" scenario. It therefore is possible that the impairment test under the current accounting framework and/or the related disclosures are in need of improvement. The International Accounting Standards Board (IASB) is currently in the process of considering potential improvements to the impairment test and potential improvements to disclosures about the performance of an acquisition.

1.3. Why Are We Engaging in Consultation on This Issue?

It is critical that the application of financial reporting standards result in fair presentation of the financial position, performance and cash flows of the company for the benefit of investors, including that the goodwill is not stated at an amount in excess of its recoverable amount,[4] and that impairment losses are recognized in a timely manner.

The "too little, too late" issue and the adequacy of disclosures around close call scenarios may be important to investors in helping them assess the success of acquisitions by management. Indeed, transparent and timely disclosure of financial performance, including information on goodwill, is important to informed investment decisions, through which market mechanisms work well and efficient capital allocation is achieved.

Disclosure of the key assumptions underlying the impairment analysis of goodwill also is one of the top issues for securities regulators. The validity of assumptions underlying the estimated cash flows used to test goodwill for impairment emerged as the second most common issue from a survey of securities regulators.

1.4. Structure of This Report

This report is structured as follows:

- Chapter 1 – Introduction (this chapter)
- Chapter 2 – Current Status
- Chapter 3 – Results of Survey by Members
- Chapter 4 – Consultation Questions for Stakeholders
- Chapter 5 – Next Steps

[4] The objective of the impairment test for goodwill is to ensure that the assets including goodwill of a CGU or group of CGUs are carried at no more than their recoverable amount.

Chapter 2 - Current Status

2.1. Increase in Economic Uncertainty

After the financial crisis, the global economy gradually recovered. However, the COVID-19 pandemic and the conflict in Ukraine and other economic uncertainties have more recently significantly impacted the global economy. Throughout all of this, there has been a significant amount of M&A activity as stronger companies seek opportunity for growth through acquisitions.

As identified in an IOSCO public statement issued in November 2022,[5] factors affecting economic conditions include, but are not limited to, supply chain challenges; on-going impacts of the COVID-19 pandemic; evolving impacts of the conflict in Ukraine; escalating energy supply shortages and costs; labour shortages; inflationary pressures; volatility in currency exchange rates; rising interest rates; changes in monetary and fiscal policies; and other responses from central banks and other government authorities. As economic circumstances evolve and change, it is critical for management to carefully assess the latest economic environment where issuers operate and reflect it in the assumptions used in the accounting estimates, including goodwill impairment tests.

Different industries/companies face different economic challenges and uncertainties. Accordingly, entity-specific assumptions and disclosure of underlying assumptions in goodwill impairment tests may be important for investors' understanding of management's goodwill impairment assessment and conclusion.

These economic conditions both directly and indirectly have effects on the carrying amount of goodwill on issuers' balance sheets. IOSCO encourages issuers, audit committees (or TCWG) and external auditors to exercise heightened professional scepticism with regards to these issues. These stakeholders need to carefully consider how risks and other macroeconomic factors affect or may affect an issuer's operations, financial condition, cash flows and future prospects and the need for transparent disclosures around these judgements and estimates.

2.2. IASB's Initiative

2.2.1. Discussion Paper

In March 2020, the IASB issued the Discussion Paper *Business Combination – Disclosures, Goodwill and Impairment* (the Discussion Paper) which outlined issues identified through the Post-Implementation Review of IFRS 3 (PIR of IFRS 3) and provided the IASB's preliminary views on how to address these issues.

Issues identified through the PIR of IFRS 3

Although stakeholders had divided views on some issues (e.g., reintroduction of goodwill amortization), many stakeholders raised concerns in the following areas:

- Many investors said they often have difficulty assessing the subsequent performance of an acquisition.

[5] IOSCO Statement on Financial Reporting and Disclosure during Economic Uncertainty, November 2022 https://www.iosco.org/library/pubdocs/pdf/IOSCOPD720.pdf

- Many stakeholders said there is a time lag between an impairment occurring and recognition of an impairment loss in a company's financial statements. This is partly attributable to optimistic forecasts of management.

- Many stakeholders described the impairment test as complex and said it requires companies to make difficult judgements.

Preliminary views presented on the discussion paper

The Discussion Paper presented the IASB's preliminary views on how the IASB would address the issues identified through the PIR of IFRS 3. The preliminary views relating directly to goodwill accounting and disclosure are as follows:

- Disclosure objectives and requirements in IFRS 3 should be enhanced to improve the information provided to investors about an acquisition and its subsequent performance;

- No impairment test was identified that would be significantly more effective than the impairment test in IAS 36;

- Amortisation of goodwill would not be reintroduced;

- Companies should be given relief from performing an annual quantitative impairment test for CGUs containing goodwill if there is no indication that an impairment may have occurred; and

- Proposals would be explored to reduce complexity of the impairment test by removing the restriction on including cash flows from a future uncommitted restructuring.

2.2.2. Current IASB discussions toward exposure draft

We understand that the IASB is developing an exposure draft of a proposed standard.[6] At its November 2022 meeting, the IASB tentatively decided to retain the impairment-only approach to accounting for goodwill. The IASB stated that the decision whether to retain the impairment-only model for the subsequent accounting for goodwill or to explore reintroducing amortisation of goodwill was a decision about whether evidence gathered since IFRS 3 was issued provides a compelling case for change. The IASB reported that it was not a decision about which of those models is conceptually better (and upon which there is significant disagreement among stakeholders). The IASB considered that evidence collected to date does not clearly demonstrate that one approach is "more correct" than the other. The IASB underlined that the views represent different perspectives of the nature of goodwill which, to their proponents, were valid and supported by well thought out evidence. In conclusion, the IASB concluded that there is not a compelling case to explore reintroducing amortisation of goodwill, either on its own or as an option, to improve the information provided to users about business combinations. The IASB also tentatively decided at its September 2022 meeting to explore adding disclosure requirements to IFRS 3 on an acquisition and its subsequent performance.

[6] See https://www.ifrs.org/projects/work-plan/goodwill-and-impairment/.

We understand that the exposure draft will also explore improvements and simplification of the impairment test.

Similar to the IASB project, the FASB also had its own goodwill project. The FASB voted to deprioritise and remove the project from its technical agenda because there was not a sufficient case for change in the subsequent accounting for goodwill. The tentative decision made by the IASB on impairment-only model is consistent with the tentative decision made by the FASB.

2.3. IOSCO's Work on Goodwill[7]

2.3.1. Issues in current practice

"Too little, too late" on goodwill impairment

The risk of unrecognized impairment on accumulated goodwill balances arising from business combinations is one of the top priority issues among members of IOSCO's Committee on Accounting, Audit and Disclosure (Committee 1). From the viewpoint of investor protection, it is crucial that financial reports fairly present the financial position, performance and cash flows of an issuer. Goodwill should not be presented in excess of its recoverable amount on an issuer's statement of financial position and impairment losses should be recognised on a timely basis.

Disclosure on goodwill impairment tests

Disclosure of the key assumptions underlying the determination of the recoverable amount of goodwill is one of the top issues for securities regulators. One of the IOSCO principles for listed companies is that there should be full, accurate, and timely disclosure of financial results, risk, and other information that is material to investors' decisions.[8] We believe that there is room for improvement in the disclosure requirements for issuers such as greater transparency about assumptions used and the outcomes of goodwill impairment assessments.

2.3.2. Support for IASB's Objective

We support the IASB's objective to explore whether improvements can be made in the goodwill impairment test and disclosures around the performance of an acquisition that could provide investors with more useful information about acquisitions. This information could help investors to more effectively hold management to account for its acquisition decisions. In addition to achieving further transparency, the IASB could explore whether the standards can be improved in respect of the impairment test such that they are better aligned with the economic prospects of an issuer.

7 See IOSCO Comment Letter to DP/2020/1 "*Business Combinations – Disclosures, Goodwill and Impairment*"- https://www.iosco.org/library/comment_letters/pdf/IASB-112.pdf

8 See E 16 of IOSCO Principles for issuers https://www.iosco.org/library/pubdocs/pdf/IOSCOPD561.pdf

We broadly agreed with the IASB's preliminary views presented in the Discussion Paper and its plans for developing enhancements to IAS 36. There may also be further opportunities to enhance the standards as follows:

- How would removing the requirement for an annual test of goodwill respond to stakeholder concerns of "too little, too late."

- Consider whether removing the restriction in IAS 36 that prohibits companies from including some cash flows from uncommitted restructurings or improvements of the asset's performance would respond to stakeholder concerns of "too little, too late" since there will be a significant level of judgement involved with estimating what could be identified as an uncommitted restructuring cost.

- IOSCO members think that commercial sensitivity should not prevent companies from disclosing information about management's objectives for an acquisition. When a company accesses the public capital markets, it is accepting that transparency will be required to continue as a listed company.

- Many IOSCO members are concerned that management's estimation of value in use may be overly optimistic in some circumstances. Many IOSCO members considered that this is challenging from an enforcement perspective. Therefore, to enhance auditability and enforceability, we encourage the IASB to explore disclosures for "close call" situation when no impairment is recognized although an impairment test is conducted. The IASB could consider whether an entity should disclose the facts and circumstances with respect to how close it was to impairing goodwill when the entity performed an impairment test and the potential consequences of reasonably foreseeable changes in assumptions to the impairment assessment, in addition to the disclosures already required by IAS 36.

We support the IASB's tentative decision to enhance disclosures that enable investors to assess performance of an acquisition and more effectively hold management to account for its acquisition decisions. We emphasize that the issue of "too little, too late" goodwill impairment and the issue of insufficient disclosure on goodwill impairment tests are priority issues in financial reporting.

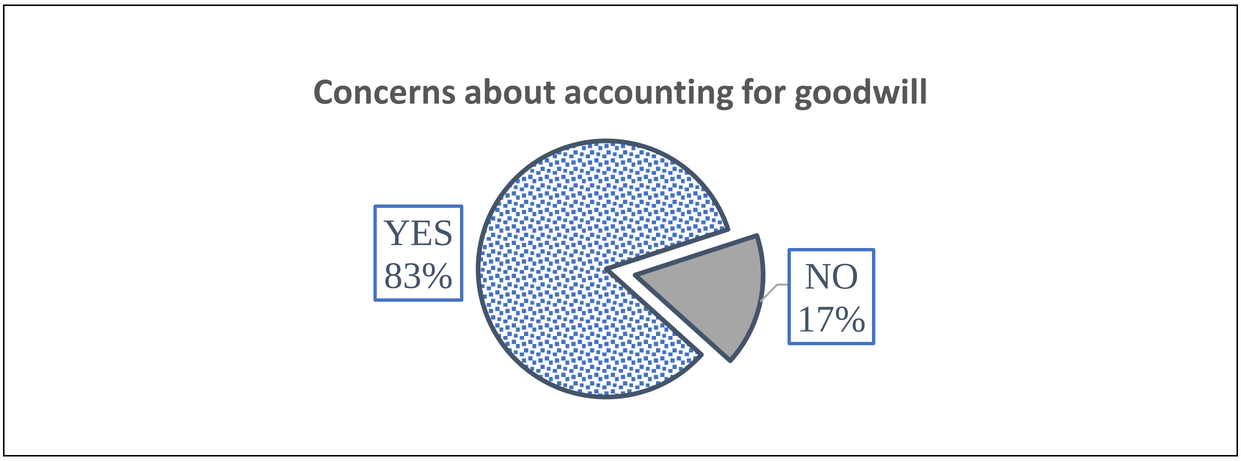
2.3.3. Potential Actions Available under Existing Standards

As noted earlier, we support the IASB's initiative to explore enhanced transparency on an acquisition and its subsequent performance. We also believe that issuers, audit committees (or TCWG) and external auditors can consider actions now available to address some of the issues surrounding accounting and disclosure of goodwill. The risk of unrecognised impairment on accumulated goodwill is becoming an area of greater concern in light of the increasing economic uncertainty in the business environment. Issuers, audit committees (or TCWG) and external auditors can scrutinize their existing processes, judgements, estimates and external communications around goodwill impairment assessments.

Chapter 3 - Results of Survey of IOSCO Committee 1 Members

In 2021, IOSCO conducted a survey among Committee 1 members to understand issues identified by members on accounting for goodwill, in relation to the activities of issuers, audit committees (or TCWG) and external auditors.[9]

Most members (83% of the sample) expressed concerns about accounting for goodwill, in particular the recoverability of significant (and increasing) goodwill balances recognized in the financial statements. Members also highlighted examples in their respective jurisdictions where goodwill was not impaired adequately (in terms of amount) or recognised on a timely basis (referred to as the "too little, too late").



The following section describes the findings in more detail, in relation to issuers, audit committees (or TCWG) and external auditors.

3.1. Findings Relating to Issuers

3.1.1. Concerns with recognising all identifiable intangible assets and providing the entity-specific disclosure of the factors that make up the goodwill recognized in a business combination

Members were concerned that in some cases a significant amount of the consideration paid is reflected as goodwill which may indicate that not all separate intangible assets were properly identified and/or measured. Issuers should ensure that separately identifiable intangible assets are appropriately recognized and measured in accordance with the relevant financial reporting standards. Investors need disclosure of these assets to fully understand the nature of the acquisition and to better understand the subsequent performance of the acquisition. In addition,

9 18 C1 members responded to this survey.

members were concerned that issuers do not currently disclose entity-specific information about factors that make up the goodwill recognized in business combinations.[10]

3.1.2. Concerns with use of reasonable and supportable assumptions

Members were concerned that the cash flow projections were not always based on reasonable and supportable assumptions. Although paragraph 33(a) of IAS 36 requires issuers to place greater weight on external evidence for the determination of assumptions, issuers do not necessarily have access to external evidence (e.g., industry data, peer data or investors' analysis) to support key assumptions.

Members expressed concerns that issuers may not develop sufficient documentation to support the basis and reasonableness of the assumptions used in their goodwill impairment tests. Members also expressed concerns about the adequacy of internal controls over the goodwill impairment process. For example, in some cases management did not necessarily evaluate whether their budgets and forecasts were properly adjusted for risks.

3.1.3. Concerns with consistency between assumptions used in goodwill impairment tests and non-financial disclosures

Members identified inconsistencies between statements in the management commentary and the assumptions used in goodwill impairment tests in some cases. These inconsistencies could be in respect of assumptions about the potential effect of climate risk, economic trends and uncertainties, or potential changes in regulatory requirements.

3.1.4. Concerns with disclosures of impairment tests

Members were of the view that disclosures relating to goodwill impairment tests could be improved including for example:

- How key assumptions are determined, including whether those assumptions reflect past experience or external sources of information.
- If those assumptions do not reflect past experience or external sources of information, how and why they differ from past experience or external sources of information.[11]
- Disclosure of information regarding the reasonably possible changes in a key assumption that could cause a subsequent impairment.[12]

3.2. Findings Relating to Audit Committees (or TCWG)

Many members questioned whether communication between audit committees (or TCWG) and management could be improved in relation to goodwill impairment tests. Those members also

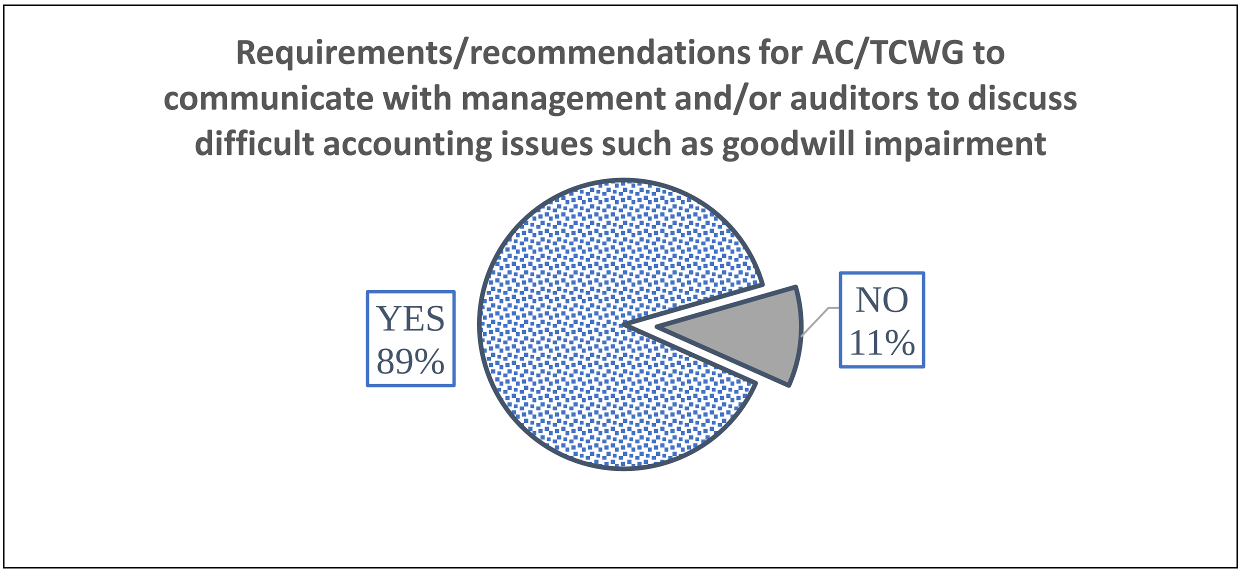
[10] Paragraph B64(e) of IFRS 3 requires issuers to disclose "*a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations, intangible assets that do not qualify for separate recognition or other factors*".

[11] IAS 36.134(d)(i)(ii)

[12] IAS 36.134(f)

questioned whether communication between audit committees (or TCWG) and external auditors could be improved on this topic.

Many members noted that their jurisdiction requires/recommends audit committees (or TCWG) to communicate with management and/or external auditors about difficult accounting judgments and estimates such as goodwill impairment tests.



3.2.1. Interaction between audit committees (or TCWG) and management

Oversight of financial reporting is one of the core responsibilities of audit committees (or TCWG). To fulfil the responsibility, audit committees (or TCWG) need to understand how management has performed goodwill impairment tests. However, some members found that audit committees (or TCWG) do not necessarily obtain information regarding whether management undertook proper processes or procedures on goodwill impairment tests, notwithstanding that goodwill may be material to the financial statements. As such, there may be an opportunity to improve interactions between audit committees (or TCWG) and management.

3.2.2. Interaction between audit committees (or TCWG) and external auditors

Interaction between audit committees (or TCWG) and external auditors could be also enhanced in relation to goodwill impairment tests. Members suggested that audit committees (or TCWG) could:

- Understand the time, skills and resources used by external auditors on assessing the adequacy of management's goodwill impairment tests.

- Have their own internal process to identify important issues and understand with the basis for the external auditors' conclusions about whether goodwill impairment tests are conducted in a timely manner.

- Discuss critical judgements and estimates made in relation to goodwill impairment tests with the external auditor.

- Discuss with the external auditors whether there was consistency between the assumptions underlying the goodwill impairment test and those used in non-financial disclosures.

Many members pointed out that "IOSCO Report on Good Practices for Audit Committees in Supporting Audit Quality"[13] is relevant and should be considered by audit committees (or TCWG), when they oversee goodwill impairment tests.

3.3. Findings Relating to External Auditors

The initial recognition of goodwill and subsequent impairment testing may require significant attention by auditors. In fact, accounting for goodwill is one of the most frequently identified "key audit matters" (under International Standards on Auditing) in member jurisdictions, ranging up to 70 percent of all key audit matters reported in member jurisdictions.

3.3.1. Concerns with challenging management's assumptions and disclosures

Many members observed that the accounting for business combinations and goodwill is one of the areas for which audit oversight bodies frequently identify audit deficiencies.

Members are concerned that some auditors do not appropriately challenge management or obtain sufficient support about the reasonableness of assumptions used in impairment tests, or whether sufficient disclosures are made about those assumptions in the financial statements. For example, auditors could:

- Carefully review the outcome of accounting estimates made in prior financial reporting periods[14] and consider whether issuers have a history of overly optimistic cash flows and other assumptions.

- Properly identify and test management review controls (MRC) over assumptions used in goodwill impairment analysis and business combinations, such as identification of outliers and resolution of identified outliers.

- Challenge the reasonableness and appropriateness of the future growth rate having regard to changing market and economic factors, and other developments or uncertainties specific to the entity, and not place undue reliance on a comparison of the future growth rate with the prior years' actual growth rates.

- Test the accuracy and completeness of management prepared reports used in the goodwill impairment analysis and acquisition accounting for the business combinations and also test controls over the preparation and maintenance of the information.

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[13] See https://www.iosco.org/library/pubdocs/pdf/IOSCOPD618.pdf.

[14] See paragraph 14 of ISA 540.

- Carefully assess the relevance and reliability of assumptions and other information provided by management's expert.

Members noted that in some cases, auditors did not exercise the appropriate level of professional scepticism. For example:

- There was insufficient evidence in some cases that:

  (i) management projected growth in cash flows beyond five years in a value in use model was reliable and the issuer could demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period (see IAS 36 paragraph 35); and

  (ii) the terminal growth rate exceeded the long-term average growth rate for the products, industries, or country or countries in which the issuer operates, or for the market in which the asset is used (IAS 36 paragraph 33 (c) requires that the terminal growth rate shall not exceed the long-term average growth rate unless a higher rate can be justified) is appropriate.

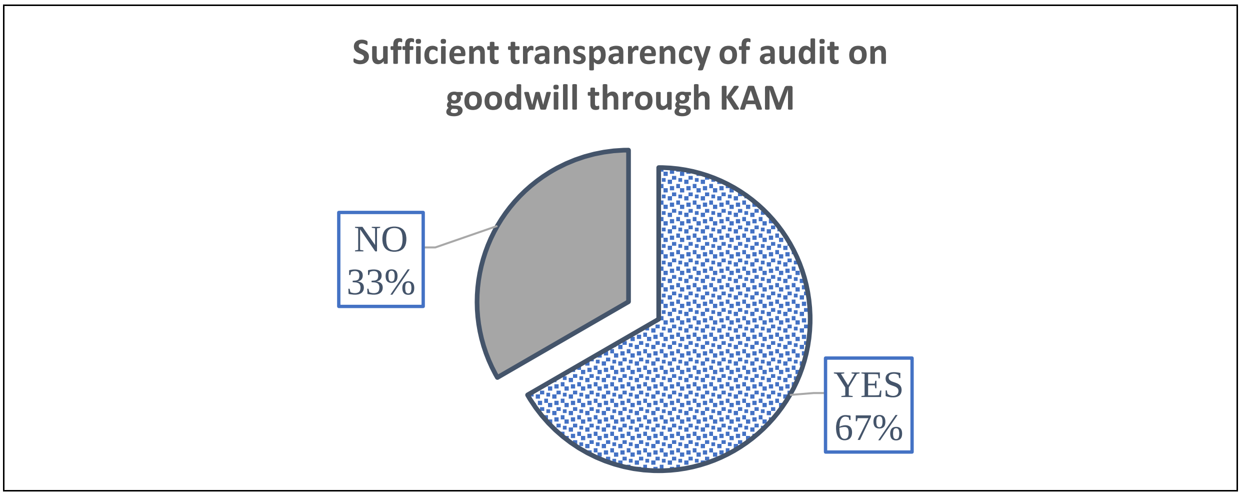
- Although auditors recognized the contradictory evidence to the assumptions used in the forecasts, some auditors did not obtain sufficient appropriate audit evidence to resolve the known contradictory evidence, when evaluating the reasonableness of forecasts.

Members considered that there are cases where auditors mechanically followed a checklist approach to conclude their audit. For example, some auditors mechanically checked that the issuers provided some disclosure (including boilerplate disclosure) pursuant to paragraph 134 of IAS 36, instead of assessing whether all material information was disclosed. Disclosure that is non entity-specific or unclear could result in the obscuring of material information about goodwill impairment test. This could reasonably be expected to influence decisions that investors make based on the financial statements.[15]

3.3.2. Concerns with transparency of audit on goodwill through key audit matters

One-third of members expressed concern that the disclosure of key audit matters relating to goodwill did not enhance the communicative value of the auditor's report. Specifically, members expressed concern about the lack of specificities in the descriptions of key audit matters as to why the matter was one of significance in the audit and how the matter was addressed in the audit. These members noted that key audit matters were reported in a boilerplate manner in some cases.

[15] IAS 1.7


Sufficient transparency of audit on goodwill through KAM
NO
33%
YES
67%

Chapter 4 - IOSCO Consultation Questions for Stakeholders

To assist in developing the final report, respondents are encouraged to answer the following questions in their responses:

4.1. General

Question 1: *Is there anything we can add in Chapter 1, 2 and 3, in order to adequately describe the background and issues surrounding goodwill?*

4.2. Questions for Investors and other users of the financial statements

Question 2: *How can the impairment test for goodwill in IAS 36 be improved to address the concerns around the timely identification and recognition of an impairment charge?*

Question 3: *Do disclosures around business combinations, including qualitative descriptions of what makes up the goodwill balance at acquisition (such as expected synergies from combining operations, intangible assets that do not qualify for separate recognition or other factors), currently provide decision useful information? If not, how can they be improved?*

Question 4: *Do you agree with the IASB's tentative decisions*[16] *about business combinations, particularly regarding the disclosure of the performance of business combinations after acquisition?*

Question 5: *Do disclosures around the impairment tests of goodwill currently provide sufficient detail about the assumptions used and the sensitivity of the estimate to changes in those assumptions? If not, what is lacking?*

Question 6: *Have you identified instances where the assumptions used in the impairment test of goodwill are inconsistent with other assumptions used for other financial and non-financial estimates? If yes, in what instances?*

Question 7: *Do disclosures around the initial recognition of goodwill and the impairment tests of goodwill provide appropriate entity-specific information?*

Question 8: *How can disclosures around the goodwill impairment test be improved? What additional information would be useful? Would disclosure of the percentage by which the fair value or the value in use exceeds the carrying amount of the cash generating unit provide decision useful information?*

Question 9: *When disclosed, do key audit matters (KAMs) related to impairment tests of goodwill provide sufficient entity-specific information to users of the financial statements? If not, what additional information could be provided to enhance transparency in KAMs?*

4.3. Questions for Audit Committees (or TCWG)

Question 10: *How would you describe your oversight and governance over the financial reporting process for the timely identification and recognition of goodwill impairment? In what ways do you think it could be improved?*

Question 11: *How does the audit committee/TCWG consider whether it has the requisite skills to oversee and challenge management's process?*

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[16] See [Business Combinations—Disclosures, Goodwill and Impairment]

Question 12: *How would you describe your oversight over the independent auditor, specifically around accounting estimates such as the accounting for business combinations and goodwill impairment? In what ways do you think it could be improved?*

Question 13: *Describe the Audit Committee's/TCWG's process for holding discussions with the independent auditor. Are discussions between the audit committee and the independent auditor sufficiently robust to understand the procedures performed and conclusions reached by the auditor, including how the auditor maintained professional scepticism and appropriately challenged management's assumptions. If not, how can they be improved?*

Question 14: *What type of information do you need to better execute your oversight and governance responsibilities?*

Question 15: *In your experience, do you think key audit matters (KAMs) over goodwill impairment provide enough information for investors and other users of the financial statements to understand the audit procedures performed? What additional information could be provided to enhance transparency in drafting KAMs?*

4.4. Questions for Issuers

Question 16: *How can the impairment test for goodwill in IAS 36 be improved to address the concerns around the timely identification and recognition of an impairment charge?*

Question 17: *What challenges do you have in complying with the current disclosure requirements for: business combinations, the initial recognition of goodwill, and the impairment tests of goodwill? To which extent does the management need to engage external experts in impairment testing?*

Question 18: *How can disclosures around the impairment tests of goodwill be improved?*

Would disclosure of the percentage by which the fair value or the value in use exceeds the carrying amount of the cash generating unit provide decision useful information to financial statement users?

Would disclosure of the extent to which management engages external experts in impairment testing be useful information to financial statement users?

What additional disclosures would provide decision useful information to financial statement users?

Question 19: *Do disclosures around the impairment tests of goodwill currently provide sufficient detail about the assumptions used and the sensitivity of changes in those assumptions on the calculation of the impairment test? What additional disclosures around assumptions would provide decision useful information to financial statement users?*

4.5. Questions for Independent Auditors

Question 20: *How can the impairment test for goodwill in IAS 36 be improved to address the concerns around the timely identification and recognition of an impairment charge?*

Question 21: *What good practices have you observed of management applying IAS 36 to timely identify and recognize goodwill impairment charges?*

Question 22: *The evaluation of whether goodwill is impaired requires significant management judgment and is subject to significant estimation uncertainty.*

What challenges have you experienced in executing audit procedures to test the reasonableness of management's assumptions used in the impairment tests of goodwill?

How do you maintain and demonstrate your professional scepticism when auditing management's estimates used in the goodwill impairment tests?

Question 23: *Does management's documentation adequately support the reasonableness of their assumptions and judgments made?*

Question 24: *In your experience, does management give objective consideration to both corroborative and contradictory information when setting assumptions? If not, please explain areas within the estimate where unconscious bias may be present.*

Question 25: *Would additional educational material on auditing management's estimates be useful? If yes, which educational material would be relevant and useful?*

Chapter 5 - Conclusion

IOSCO is carefully watching the current financial reporting environment especially with respect to the reporting on goodwill. The economic environment for issuers continues to change. It is critical for management to carefully assess the latest economic environment and reflect the result of the assessment in the assumptions used in the goodwill impairment tests and related disclosures.

In the current economic environment, different industries/companies face different economic challenges and uncertainties. Accordingly, entity-specific disclosure of underlying assumptions used in goodwill impairment tests is especially important for investors.

From the viewpoint of investor protection, it is crucial that the application of financial reporting standards results in the fair presentation of the financial position, performance and cash flows of the company, that the goodwill is not stated in excess of its recoverable amount, and that impairment losses are recognised in a timely manner.

We support the IASB's initiative to enhance disclosures that provide investors with better information about the performance of an acquisition and more effectively hold management to account for its acquisition decisions. We also support the IASB's initiative to improve the impairment tests.

Securities regulators believe that goodwill accounting should continue to be a focus in the coming years, in light of the current global macroeconomic environment and we ask stakeholders to respond to this consultation to provide additional information to better inform the standard-setting process and to address issues that may arise in practice.