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Feedback from the outreach plan and initial directions for EFRAG’s final comment letter Issues Paper

Objective

- 1 The purpose of this paper is to ask for EFRAG TEG’s preliminary directions for finalising EFRAG TEG’s recommended comment letter in response to the IASB’s discussion paper *Business Combinations – Disclosures, Goodwill and Impairment* (‘the DP’).
- 2 It should be highlighted that any preliminary directions provided by EFRAG TEG could be changed when EFRAG TEG considers the comment letters received in response to EFRAG’s draft comment letter (‘the DCL’).

Structure of this paper

- 3 This is structured as follows. First, EFRAG TEG’s views in relation to the disclosure proposals in the DP are sought. Then the aspects around goodwill impairment and amortisation are considered, as well as the proposals around intangible assets and the impact of FASB decisions. Finally, EFRAG TEG is asked for the direction on the first question in the DP on whether the objectives of the DP have been met.

Improving disclosures about acquisitions – Question 2-5

- 4 For the purpose of this paper, the disclosures proposed in the DP are categorised as follows:
 - (a) Information about the strategic rationale of a business combination as at the acquisition date;
 - (b) Information about the objectives (including metrics) of a business combination as at the acquisition date and whether the objectives of a business combination are subsequently met;
 - (c) Information if an entity stops monitoring an acquisition after two years;
 - (d) Information about the expected synergies as at the acquisition date;
 - (e) Liabilities arising from financing activities and defined benefit pension liabilities;
 - (f) Proforma information on operating profit before acquisition-related transaction and integration costs;
 - (g) Proforma information on cash flows from operating activities;
 - (h) Further modified figures to exclude the effects of the revaluations to fair value.
- 5 In its DCL EFRAG consulted on the possibility to present further modified figures than ‘operating profit before acquisition-related transaction and integration costs’. In addition to excluding acquisition-related transaction and integration costs, such a figure could also exclude the effects of the revaluations to fair value. In the following

this information is referred to as 'further modified figures to exclude the effects of the revaluations to fair value'.

(a) strategic rationale

The DP

- 6 According to the DP an entity should provide disclosures on the strategic rationale for an acquisition as at the acquisition date.

The DCL

- 7 In the DCL, EFRAG agrees with the proposed disclosures about the strategic rationale and management's objectives for the acquisition at the acquisition date as it may overcome the limits of the current IFRS 3 requirements. EFRAG also agreed with information to be disclosed to entail both the overall strategic plan as well as specific financial and non-financial aims as these form the basis of metrics used to monitor/evaluate an acquisition. It would also be useful to require an explanation of the entity's investment criteria to enhance the information about the expected synergies.

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's comment letter

- 8 Information on the strategic rationale seems generally to have been considered relevant from the input received. It also appears from the input received by preparers to EFRAG's questionnaire, that the information is not particularly costly to provide. From the responses to the questionnaires, it also seems to be information that could be presented in the financial statements. In some cases, information about the strategic rationale may be considered commercially sensitive by preparers.

EFRAG Secretariat analysis

- 9 The EFRAG Secretariat accordingly suggests that EFRAG's comment letter would express support for providing information on the strategic rationale of a significant business combination subject to the commercial sensitivity framework discussed in Paper 04-03.

(b) objectives as at the acquisition date and information about whether the objectives are met

The DP

- 10 The DP proposes that an entity should provide disclosures on the chief operating decision maker's objectives for an acquisition as at the acquisition date. Subsequently an entity should provide information about whether it is meeting those objectives and the information should be based on how the chief operating decision maker monitors and measures whether the acquisition is meeting its objectives. If the chief operating decision maker does not monitor an acquisition, the entity should be required to disclose that fact and explain why it does not do so. If the chief operating decision maker stops monitoring whether the objectives of an acquisition are being met before two years after the acquisition, the entity should be required to disclose that fact and the reasons why it has stopped the monitoring.

The DCL

- 11 EFRAG agrees that it would be useful to disclose whether an acquisition is meeting the objectives or if an entity changes the metrics used to monitor whether the objectives are being met. EFRAG acknowledges that it may not be meaningful to provide quantitative metrics depending on the rationale for the acquisition. EFRAG also considers it useful information if an entity does not monitor an acquisition.
- 12 EFRAG disagreed that if the information is to be provided, an entity can stop monitoring whether the objectives of an acquisition have been met after two years,

without disclosing this. EFRAG considered that it should be disclosed if an entity stops monitoring whether the objectives of an acquisition have been met within the first three years following the acquisition.

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's comment letter

- 13 Information about the objectives of an acquisition has been considered relevant information by participants to the outreaches and surveys, but, similar to the concern expressed in EFRAG's DCL, concern has also been expressed about the practicability of providing the information (whether it would be a faithful representation, in particular when respecting commercial or internal sensitivity and depending on the quality of documentation of assumptions when agreeing the price to acquire a business) and the auditability of the information. It was therefore questioned whether the information in reality would be particularly useful. Concerns about the commercial and internal sensitivity of the information were expressed.

Feedback received

- 14 In interviews, preparers provided the feedback around their different concerns, here are some major points:

- (a) Disclosing the objectives for an acquisition could put an entity in a worse position in future transactions.
- (b) Disclosure of forward-looking information could trigger legal responsibility of the management board and therefore increase the risk of litigation
- (c) Disclosure of long-term trends or strategic information could be problematic where peers in other strong economies like the US or China would not be required to do the same.
- (d) Examples of commercially sensitive information in the retail market include net sales and operational margins; in the banking industry, the components of the purchase price were mentioned.

- 15 The thirty responses of the survey show that preparers attach a higher level of commercial sensitivity with the disclosure on whether an acquisition has met the expected objectives as well as the information around synergies. More background on the survey can be found in the Agenda Paper 04-05.

- 16 The answers to polling questions during the webinars were as follows:

Do you think that it is possible to disclose information on the achievement of the targets initially defined at acquisition date and of expected synergies, without triggering commercial sensitivity?	Yes 23%	Maybe 48%	No 29%
<i>Of which¹: preparers</i>	1%	10%	17%
<i>Of which: users</i>	1%	4%	2%
<i>Of which: auditors</i>	14%	23%	5%
<i>Of which: regulators</i>	4%	3%	1%

If the information that the IASB requires to be disclosed is commercially sensitive or sensitive because of internal reasons (e.g. potential restructurings), is that a good enough reason for	Yes 46%	No 54%

¹ As only some stakeholders are separately identified, subtotals may not add to the overall number.

companies not to provide the information to investors? (during the event on 12 November 2020)		
Of which: preparers	25%	4%
Of which: users	8%	21%
Of which: auditors	13%	25%

The majority of the respondents who answered 'No' do not think that the information will be commercially sensitive.

- 17 The information might already exist at acquisition day, to report the information about subsequent performance might be complex or judgemental (interrelated impact, costs to achieve the goals) and costly (process necessary to ensure reliable and auditable information. Entities may use several metrics to monitor whether an acquisition is meeting its objectives and it may not provide complete information if only the metrics without providing context is disclosed. For example, if the objective of an acquisition would be to enhance sales with X percent, then this objective could be met by increasing the marketing budget. If only the increase in the sales would be shown, users of financial statements could be misled by the information.
- 18 At the latest EFRAG User Panel and during the user's outreach event, the following feedback had been received:
- (a) Members generally confirmed that they need more information about acquisitions and subsequent performance. They also considered the following information as useful: the pro-forma data about underlying profitability of the acquired business at the time of the acquisition as well as KPIs and metrics to measure subsequent performance and expected synergies;
 - (b) Pro-forma information can be very useful but requires further guidance, for example in respect of revaluations caused by purchase price allocation, etc.;
 - (c) Costs incurred to achieve the performance targets are useful. The pro-forma information with information on costs and synergies reflects an entity's margin structure and allows for an evaluation whether the expected benefits are sustainable;
 - (d) Concerns about commercially sensitive information may result in boiler-plate disclosures; however, as each acquisition is unique (except for serial acquirors), the information is not necessarily as sensitive as preparers argue, because it cannot be extrapolated to further acquisitions of the entity;
 - (e) Information about the operating cash flows are only useful in combination with a normalised working capital information.

EFRAG Secretariat analysis

- 19 Although there could be issues with the faithful representation of the information (see paragraph 78 of the DCL) and the auditability of the information, the EFRAG Secretariat notes that users have been stating that they lack information to assess business combinations². It may be difficult to present other information that would be

² At the user-focussed webinar on 12 November, EFRAG received the following feedback.

Do you currently get enough information about the subsequent performance of acquisitions? (during the event on 12 November 2020)	Yes 13%	No 87%
Of which: users	0%	48%

as relevant for this purpose as the information suggested in the DP. The other alternative information, the EFRAG Secretariat could consider could be useful for this purpose would be (financial) information about the acquired entity, that would allow users to better assess whether too much has been paid for the acquired entity (compared with the acquired entity's standalone value) or information on the combined entity, similar to SEC required information for the acquired entity (see Paper 04-04).

- 20 If EFRAG TEG considers that the information can be considered to result in a sufficient faithful representation, EFRAG TEG would also have to consider the number of years after which the entity would not have to disclose if it stops monitoring an acquisition.

(c) Number of monitoring years

- 21 In relation to the number of years after which the entity would not have to disclose if it stops monitoring an acquisition, the EFRAG Secretariat has heard mixed views.

Feedback

- 22 Preparers generally agree that a "two-year basis" may sometimes be not relevant. This is either due to an accelerated integration of the acquired business just after the acquisition or because an acquisition may need a significantly longer period of time to achieve the expected benefits.
- 23 An NSS multi-stakeholder technical group agreed that disclosures when management ceases monitoring of an acquisition before the end of a two-year period may sometimes be not sufficient but would depend on a case by case basis.

EFRAG Secretariat analysis

- 24 The EFRAG Secretariat notes that:

- (a) The requirement is only to disclose if an acquisition is no longer monitored. Accordingly, if an entity does not monitor an acquisition any longer, then the entity only needs to state this. The entity would not have to present any additional information;
- (b) It is not uncommon that an acquisition is monitored for more than two years.

- 25 For the reasons mentioned above, the EFRAG Secretariat accordingly suggests that, unless further input would be received on this issue, EFRAG's comment letter, similar to the DCL, should suggest that an entity should disclose if it stops monitoring whether the objectives of an acquisition have been met within the first three years following the acquisition.

(d) Expected synergies as at the acquisition date

The DP

- 26 The discussion paper is proposing to require a company to disclose a description of the synergies expected from an acquisition, when they are expected to be realised, a range of the amounts of the synergies and the expected cost to achieve the synergies.

The DCL

- 27 In its DCL, EFRAG noted that in principle the suggested disclosure requirements on synergies could provide useful information. Similar disclosures for other components of goodwill could equally provide useful information. However, EFRAG questioned

Of which: auditors	4%	26%
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whether the information should be provided in the financial statements and whether the benefits of providing the disclosures on synergies would outweigh the costs.

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's comment letter

- 28 Unlike the disclosures on the objectives of an acquisition, an entity would not have to disclose whether the synergies have been met in subsequent years (unless, these synergies are considered part of the objectives of an acquisition and are monitored by the management).
- 29 The input received indicates that the suggested information would be useful for users but there are potential issues with:
- (a) Faithful representation (e.g. it can be difficult to estimate and quantify synergies);
 - (b) Some of the information is commercially sensitive e.g. planned disposals or restructurings. To avoid disclosing commercially sensitive information, some information may be omitted, or boilerplate disclosure provided;
 - (c) The information may be difficult to audit.
- 30 From the questionnaires completed by preparers, it appears preparers would generally prefer that information about expected synergies is provided outside the financial statements.
- 31 As no other concerns not yet considered by EFRAG TEG have been raised in the outreach, the EFRAG Secretariat suggests at this stage not to change the comment letter on this issue.

(e) Liabilities arising from financing activities and defined benefit pension liabilities

The DP

- 32 In its DP, the IASB proposes to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities. This is in response to investors' demands to disclose these amounts as they view it as part of the total capital employed in the transaction by the acquirer.

The DCL

- 33 In its DCL, EFRAG supported separate disclosure of liabilities arising from financing activities and defined benefit pension liabilities acquired as part of an acquired business if the information is material.

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's comment letter

- 34 There were generally no concerns raised by the constituents on providing this information in the financial statements, and the EFRAG Secretariat would accordingly suggest not amending the DCL on this issue.

(f) Pro forma information on operating profit before acquisition-related transaction and integration costs

The DP

- 35 The IASB proposes to retain the requirements of IFRS 3 to provide pro forma information for the combined entity as if the acquisition had occurred at the start of the reporting period. The IASB proposes to replace the term 'profit or loss' in paragraph B64(q) of IFRS 3 with the term 'operating profit before deducting acquisition-related costs and integration costs'.

The DCL

- 36 In its DCL, EFRAG suggested the IASB to provide a principles-based definition for the new concepts of 'acquisition-related' and 'integration cost' to be used in preparing the pro forma information. EFRAG agreed with replacing 'profit or loss' with 'operating profit before acquisition-related transaction and integration costs'. EFRAG questioned whether the pro forma information should be included in the financial statements.

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's comment letter

- 37 The EFRAG Secretariat has only received some feedback from users or preparers on this issue. The feedback, that has been received from preparers, has generally not been in favour of the proposal. The main concern from preparers was related to the definition of such cost. Some pointed out that currently there might be diversity in practice for the preparation of the pro forma information (PPA impact considered or not). As the EFRAG Secretariat has not received much input on the topic it suggests that for now, the position in the DCL will not be amended. EFRAG TEG will then provide its final directions when considering the input received through comment letters.

(g) Pro forma information on cash flows from operating activities

The DP

- 38 The IASB proposes to add a requirement to disclose cash flows from operating activities of the acquired business after the acquisition date, and of the combined business on a pro forma basis for the current reporting period.

The DCL

- 39 EFRAG did not support the IASB proposal to provide information for cash flows from operating activities as the usefulness of this information would be very limited.

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's comment letter

- 40 Feedback received showed that the proposal to disclose the information for cash flows from operating activities is generally not supported across different categories of stakeholders. Users have noted that the information would not be particularly useful on a stand-alone basis. The information would, however, be useful if accompanied by information on working capital. The EFRAG Secretariat notes that providing the information on working capital would increase the cost of the disclosures (if the information would otherwise be prepared by calculating cash flows from operating activities from a direct approach). It has also mentioned by preparers that information on cash flows from operating activities is not relevant information for entities in the financial sector. Therefore, the EFRAG Secretariat proposes not to change the DCL on this issue.

(h) Further modified figures to exclude the effects of the revaluations to fair value

The DCL

- 41 In its DCL, EFRAG questioned whether it would be more useful to present in pro forma information further modified figures than 'operating profit before acquisition-related transaction and integration costs' which would also exclude the effects of the purchase price allocation (revaluations to fair value of the assets and liabilities of the acquired entity). EFRAG consulted constituents on the costs and benefits of disclosing this information.

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's comment letter

- 42 The feedback showed that constituents (mainly preparers) consider eliminating the effects of purchase price allocation as costly and complex exercise where costs would outweigh the benefits. It has, for example, been mentioned that:
- (a) Sometimes the information is very useful, but in those cases, entities would provide the information voluntarily;
 - (b) The information would only be of limited use, as in the following years information would not be provided on how the figures would have been without the "revaluation" to fair value;
 - (c) In some sectors the information would be less relevant, e.g. in the financial sector and for retail companies (with a high inventory turnover).
- 43 Therefore, the EFRAG Secretariat suggests not to include this proposal in the final comment letter.

Questions for EFRAG TEG

- 44 Does EFRAG TEG consider that information about the objectives of an acquisition as at the acquisition date can generally be provided in a manner that would result in useful information?
- 45 Does EFRAG TEG consider that information about whether the objectives of an acquisition have been met can generally be provided in a manner that would result in useful information?
- 46 Does EFRAG TEG consider that information about expected synergies can generally be provided in a manner that would result in useful information?
- 47 Does EFRAG TEG agree with the suggestions on the directions for EFRAG's comment letter as included in paragraphs 8 (agree that the strategic rationale of a business combination should be disclosed (subject to the commercial sensitivity framework), 25 (it should be disclosed if an entity stops monitoring whether the objectives of an acquisition have been met within the first three years following the acquisition), 34 (disclosures on liabilities arising from financing activities and defined benefit pension liabilities), 27 (pro forma information on operating profit before acquisition-related transaction and integration costs), 30 (pro forma information on cash flows from operating activities) and 43 (further modified figures to exclude the effects of the revaluations to fair value)?
- 48 Does EFRAG TEG agree with the directions suggested for the FCL to the other points discussed above?

Goodwill impairment and amortisation

- 49 This section considers the following aspects:
- (a) Effectiveness of the impairment test;
 - (b) Reintroduction of goodwill amortisation;
 - (c) Presentation of total equity excluding goodwill;
 - (d) The indicator-only approach;
 - (e) VIU simplifications (post-tax inputs and future restructuring or enhancement); and
 - (f) Other simplifications not pursued by the IASB;
 - (g) Reversals of goodwill impairment.

(a) Effectiveness of the impairment test

The DP

- 50 The IASB identified management over-optimism and the shielding effect as possible causes for the perceived delay in the recognition of impairment losses on goodwill. However, the IASB concluded that it is not feasible to design a different or a significantly more effective impairment test than the one in IAS 36.

The DCL

- 51 EFRAG shares the IASB's reservations on the possibility to develop a different and more effective impairment approach. However, EFRAG suggests that the guidance on goodwill allocation to CGUs is discussed and possibly amended to improve how the test is applied in practice. In addition, better disclosures of estimates used to measure recoverable amounts of CGUs containing goodwill could supplement the improvements to goodwill allocation guidance. EFRAG also suggested some disclosures to reduce over-optimism.

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's comment letter

Guidance on the allocation and reallocation of goodwill

- 52 The majority of preparers consider that no further guidance is required, however some consider that the EFRAG suggestions may be useful, subject to how the rebuttable presumption that allocation is done at a level below segment can be rebutted. Users have mixed views, and some auditors agree with additional guidance, but consider a balance is needed between reducing the shielding effect and having to do tests on a more granular basis.
- 53 As no other concerns not yet considered by EFRAG TEG have been raised in the outreach, the EFRAG Secretariat suggests at this stage not to change the comment letter on this issue.

Disclosures to overcome management over-optimism

- 54 At outreach events, there has been some support for some of the disclosure suggestions included in the DCL, however, in the survey preparers have noted that the disclosures would be costly/complex to provide and could be commercially sensitive. Users consider an improvement to the disclosures necessary. A majority of auditors agree that the proposed disclosures may provide discipline and some think that a reconciliation of market capitalisation to book value may help in this regard.
- 55 The EFRAG Secretariat accordingly suggests that EFRAG's comment letter would propose these disclosures subject to the commercial sensitivity framework discussed in Paper 04-03.

(b) Reintroduction of goodwill amortisation

The DP

- 56 A small majority (eight out of fourteen IASB members) reached a preliminary view that the IASB should retain the impairment-only model. The IASB accepts that both accounting models for goodwill have limitations.
- 57 The IASB would especially welcome feedback to understand:
- (a) why stakeholders have concerns that recognition of impairment losses on goodwill is not timely, and whether amortisation could and should resolve those concerns; and
 - (b) what information best helps investors to hold companies' management accountable for acquisition decisions at a reasonable cost.

The DCL

58 EFRAG has not formed a view on whether amortisation of goodwill should be reintroduced, in combination with an impairment requirement, or whether no major changes to the current accounting for goodwill is justified. EFRAG is seeking views from its constituents and would welcome in particular new evidence to support a change.

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's final comment letter

59 The EFRAG Secretariat suggests that EFRAG TEG considers this topic after the analysis of comment letters. In outreach events, there was strong support for the reintroduction of goodwill amortisation with very few considering a component approach. However, many of those that supported amortisation did so on a practical ground and it is not clear how much new evidence supports amortisation or a component approach. Some referred to increasing goodwill balances and few impairments observed during the pandemic crisis.

Disclosures to the age of goodwill

60 EFRAG did some outreach whether information to the age of goodwill would be useful if goodwill amortisation would not be reintroduced. Disclosures related to the age of goodwill was mainly supported (although this is based on limited feedback or very fast expressed feedback). Some preparers consider that this would require moderate costs whereas others consider it to be insignificant. However, some Preparers with regular investments and divestments and those with reallocations expressed the view that it is impracticable to track the age of goodwill. The EFRAG Secretariat accordingly suggests that EFRAG's comment letter would propose to disclose the age of goodwill, unless impracticable.

(c) Presentation of total equity excluding goodwill

The DP

61 Presenting total equity excluding goodwill as a subtotal within the structure of the balance sheet could highlight the subtotal's relationship with other items in the financial statements. However, changing the structure of the financial statements to allow the presentation of this subtotal could be too disruptive. Therefore, the IASB does not intend to pursue such a change and companies would present this amount as a free-standing item.

The DCL

62 EFRAG does not support the IASB's proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill as:

- (a) it would create confusion as to whether goodwill is an asset or not;
- (b) such a number can be calculated fairly easily; and
- (c) such a disclosure would be more harmful than beneficial.

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's final comment letter

63 The EFRAG Secretariat has not received extensive feedback on this, but the feedback received was mainly confirming EFRAG's position. One user questioned the EFRAG position as market aggregators provide this information already and some metrics used by analysts also exclude it. One NSS questioned the usefulness of such a disclosure where some of the goodwill relates to that of the non-controlling interests.

64 As no other concerns not yet considered have been raised in the outreach, the EFRAG Secretariat suggest at this stage to keep the message in the DCL as is but adding the point around the attribution of the goodwill to non-controlling interests.

(d) Indicator-only approach

The DP

- 65 A narrow majority (eight out of fourteen IASB members) favour removing the requirement for an annual impairment test, even though the IASB's preliminary view is that it should not reintroduce amortisation. They agree that removing the requirement would make the test marginally less robust. However, they also consider that when the company has no indicator of impairment the benefits of testing for impairment are minimal and so do not justify the cost in those cases.
- 66 Because moving to an indicator-based approach would place more reliance on identifying indicators of impairment, the IASB plans to assess whether it needs to update the list of indicators in paragraph 12 of IAS 36.

The DCL

- 67 EFRAG disagrees with the introduction of an indicator-only approach unless goodwill amortisation is reintroduced.

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's final comment letter

- 68 The strongest support for the IASB proposal was from preparers (it helps to reduce complexity), however, with some disagreeing while auditors and users generally disagreed. In the survey, preparers indicate insignificant savings when following the indicator-only approach. Overall, there are concerns about the reduction in know-how relating to the quantitative test in these circumstances, in addition to concerns of users that would not benefit any more from information that they consider useful.
- 69 The EFRAG Secretariat notes that no concerns have been raised by constituents that are not expressed in EFRAG's view, and accordingly would suggest not to amend the DCL on this issue.

(e) Value in use simplifications

The DP

- 70 The IASB's preliminary view is that it should develop proposals:
- (a) to remove the restriction in IAS 36 that prohibits companies from including in estimating value in use cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance; and
 - (b) to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use.
- 71 The IASB expects that these changes would reduce the cost and complexity of impairment tests and provide more useful and understandable information.

The DCL

- 72 EFRAG supports the IASB' proposal to remove the restriction in IAS 36 that prohibits companies from including cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance. However, additional guidance would be required on when to include restructuring cash flows in the calculation.
- 73 EFRAG supports the IASB' proposal to remove the explicit requirement to use pre-tax inputs and pre-tax discount rates to calculate value in use.

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's final comment letter

- 74 On restructuring and enhancement cash flows, most preparers agreed with the proposals while overall a minority of stakeholders disagreed as they were concerned

that the test would be less robust with these changes. On this topic, the EFRAG Secretariat proposes that EFRAG TEG considers whether any additional guidance to that in the DCL should be considered and proposed.

75 The EFRAG Secretariat proposes no changes to the DCL on the topic of post-tax inputs given the pervasive support this proposal has amongst stakeholders.

(f) Other simplifications not pursued by the IASB

The DP

76 The IASB has decided not to develop the following proposals:

- (a) Adding more guidance on the difference between entity-specific inputs used in value in use and market-participant inputs used in fair value less costs of disposal;
- (b) Mandating only one method for estimating the recoverable amount of an asset (either value in use or fair value less costs of disposal) or requiring a company to select the method that reflects the way the company expects to recover an asset; and
- (c) Allowing companies to test goodwill at the entity level or at the level of reportable segments rather than requiring companies to allocate goodwill to groups of cash-generating units that represent the lowest level at which the goodwill is monitored for internal management purposes.

The DCL

77 EFRAG supports the IASB's preliminary view to not develop the above proposals apart from further guidance on allocating goodwill to cash-generating units (discussed under paragraphs 52 and 53).

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's final comment letter

78 There are mixed views on the use of one method for determining the recoverable amount of a CGU – a user prefer value in use and a valuer prefers fair value less costs of disposal.

79 The EFRAG Secretariat proposes no changes to the comment letter based on the limited inputs at this stage.

(h) Reversals of goodwill impairment

The DCL

80 EFRAG wanted inputs on whether the IASB should consider introducing the reversal of goodwill impairment, including impairment losses recognised in an interim period.

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's final comment letter

81 So far the input indicated no majority in favour of the proposal. At the Danish event, the majority of the participants responded to a polling questions that this should not be allowed. Therefore, at this stage, the EFRAG Secretariat proposes no changes to the comment letter.

Questions for EFRAG TEG

82 Does EFRAG TEG agree not to change the comment letter with respect to guidance on goodwill allocation and reallocation as well as more disclosures on estimates used in measuring the recoverable amount?

83 Does EFRAG TEG agree to maintain the disclosure proposals intended to overcome management over-optimism subject to the commercial sensitivity framework?

- 84 Does EFRAG TEG agree with considering the reintroduction of goodwill amortisation after the receipt of responses to the DCL? If applicable, is EFRAG TEG aware of any new evidence to support the reintroduction of goodwill that can already be considered by EFRAG Secretariat?
- 85 Does EFRAG TEG agree to require disclosure of age of goodwill, unless impracticable?
- 86 Does EFRAG TEG agree to maintain the preliminary view in the DCL not to require separate presentation of equity excluding goodwill?
- 87 Does EFRAG TEG agree to maintain the current response in the comment letter on the indicator-only approach?
- 88 Is there any additional guidance to be considered inclusion in the comment letter relating to future uncommitted restructurings and asset enhancements? Does EFRAG TEG agree to maintain the preliminary view in the comment letter to allow post-tax inputs in the value in use calculations?
- 89 Does EFRAG TEG agree to maintain the comment letter on the IASB not pursuing other simplifications to the impairment test?
- 90 Does EFRAG TEG agree not to change the DCL at this stage in respect of reversals of goodwill impairment?

Other topics

91 This section considers the following aspects:

- (a) Intangible assets; and
- (b) Convergence with the FASB.

Intangible assets

The DP

92 The IASB considered stakeholder feedback about whether to permit or require companies to include in goodwill identifiable intangible assets acquired in a business combination. The IASB concluded that it did not have compelling evidence and reached a preliminary view that it should not develop a proposal to change the recognition criteria for identifiable intangible assets acquired in a business combination.

The DCL

93 In the DCL, EFRAG suggested that the IASB takes into account the concerns of investors who want to compare companies that grow by acquisitions more easily with those that grow organically and, as such, start a project on IAS 38. EFRAG would be in favour of allowing some intangible assets to be included in goodwill if goodwill were to be amortised, however EFRAG questions the usefulness of such a change pending a broader project on IAS 38.

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's final comment letter

Feedback received

94 Preparers expressed in general that separate recognition of intangible assets acquired in a business combination is useful. However, some of the preparers pointed out that the identification and valuation can be judgmental, complex and costly. Some preparers noted that certain intangible assets, for example customer relationships are more eligible to be presented as goodwill.

- 95 Users agreed in general with the usefulness of separate recognition, however many of the users also noted that separate recognition is not useful if it contains significant judgment and complexity. In that case, presenting as goodwill is appreciated.
- 96 The auditors had mixed views but supported in general further considerations of IAS 38 during the IASB's agenda consultation.

EFRAG Secretariat analysis

- 97 The EFRAG Secretariat notes that in general separate recognition is supported by constituents, but acknowledges the concerns expressed by some preparers and many users relating to the significance of the judgment and complexity involved in identification and valuation of some intangible assets, for example customer relationships.
- 98 The EFRAG Secretariat additionally notes that current differences between the recognition and valuation of internally developed intangible assets and intangible assets acquired in a business combination limits investors in comparing companies that grow organically with companies that grow by acquisitions. However, it is also true, that it would not necessarily be fair to equate these two business models as in an acquisition, the purchase price paid needs to be considered as well.
- 99 Accordingly, the EFRAG Secretariat considers that these concerns need to be considered by the IASB in a broader project on IAS 38.
- 100 There has generally not been raised any concerns from constituents that are not expressed in EFRAG's view, and the EFRAG Secretariat would accordingly suggest not to amend the DCL on this issue.

Convergence with the FASB

The DP

- 101 The IASB seeks feedback from stakeholders about whether the convergence with the current US GAAP, or as it may be after the FASB's current project, is considered important and would impact the stakeholder's view on the subjects discussed in the DP.

The DCL

- 102 In the DCL, EFRAG clarified that its responses to the questions in the DP do not depend on whether the outcome is consistent with US GAAP. EFRAG considers that convergence with the FASB on how to account for goodwill should be taken into account, but it should not be an overriding objective.

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's final comment letter

- 103 There has generally not been raised any concerns from constituents that are not expressed in EFRAG's view, and the EFRAG Secretariat would accordingly suggest not to amend the DCL on this issue. The possible reintroduction of goodwill by only one of the two boards (IASB or FASB) would introduce a material deviation in what is so far generally aligned accounting. The issue will be addressed when TEG will discuss the FASB latest developments and the approach to amortisation.

Questions for EFRAG TEG

- 104 Some consider it necessary to align the accounting requirements for internally generated intangible assets and those acquired in a business combination so that investors can compare organic-growth companies to acquisition-growth companies. Does EFRAG TEG agree that this is necessary and that the alignment of intangible assets accounting is the appropriate way to compare these two business models?

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| 105 Does EFRAG TEG agree not to change the comment letter in respect of including intangible assets in goodwill? |
| 106 Does EFRAG TEG agree that no changes are required to the comment letter on convergence with US GAAP? |

Overall objective of the DP

The DP

- 107 Paragraph 1.7 of the DP states: "The Board's overall objective is to explore whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make. Better information would help investors assess the performance of companies that have made acquisitions. Better information would also be expected to help investors more effectively hold a company's management to account for management's decisions to acquire those businesses."

The DCL

- 108 EFRAG supports and agrees with the objective of the project in its DCL. However, since it was wanting input from its constituents on aspects of the DP, it considered that it could only answer on the package as a whole after receiving such feedback.

Key messages obtained from EFRAG outreach activities - Directions for EFRAG's final comment letter

- 109 The EFRAG Secretariat notes that in certain areas, limited feedback has been received at this stage. The support obtained in the outreach activities for the opportunity to suggest improvements to the allocation/reallocation/disposal of goodwill and to consider disclosures to mitigate overoptimism shows that the DP has not completely attempted to address the limits of the current practice of goodwill impairment and that the proposals about disclosure of the performance of the business combination are a partial answer to the existing standard setting demand. With reference to disclosure, it also notes that any conclusion on achieving the overall objective of the DP is likely to depend on EFRAG TEG's conclusions around commercial sensitivity and specifically the related framework. Furthermore, the response to this would depend on whether EFRAG TEG considers the additional guidance and disclosures proposed in the DCL to be essential.

Questions for EFRAG TEG

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| 110 Are there other aspects on the overall objective of the project that EFRAG TEG considers the EFRAG Secretariat should consider when preparing the final comment letter? |
| 111 Are there specific areas/questions that EFRAG TEG considers to be more important in its conclusion about whether the objective has been met, e.g. disclosures about acquisitions or accounting for goodwill? |