

# IMPROVING INFORMATION REGARDING BUSINESS COMBINATIONS AND SUBSEQUENT ACCOUNTING FOR GOODWILL - WHICH WAY TO GO?

## SUMMARY REPORT

WEBINAR – 16 OCTOBER 2020



## Background

EFRAG and the IASB organised an online joint outreach event *Business Combinations and Goodwill – Which Way to Go?* on 16 October 2020. The aim of the online outreach event was to stimulate the discussion around the IASB Discussion Paper DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment* ('the DP') and to receive input from constituents. This report has been prepared for the convenience of European constituents to summarise the event and will be further considered by the involved organisations in the respective due process on the IASB discussion paper.

The program of the event can be found [here](#). The biographies of the speakers and panellists biographies can be found [here](#).

For each of the topics discussed during the online outreach event, the IASB representatives introduced the proposals, the EFRAG representatives presented EFRAG preliminary position and the panellists participated in the discussion and provided their views. The audience provided their views on the proposals through online polling surveys and questions to the speakers. The polling survey and questions asked by the participants are set out in this report in the relevant section. As not all the questions of the participants could be discussed due to time limitation, the total list of incoming questions is listed in the appendix to this report for information purposes.

## Introduction



**Chiara Del Prete**, EFRAG TEG Chairwoman, welcomed the participants and panellists. She noted that this is the first outreach event dedicated to IASB Discussion Paper DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment* ('the DP') and that input from the participants will be considered in the due process for EFRAG's final comment letter.



**Martin Edelmann**, IASB Board member, mentioned that any views of the IASB representatives during this outreach event are personal views and not necessarily IASB's view. He summarised the objective, timeline and the main areas of the DP where the IASB is seeking feedback, as well as introducing the IASB's preliminary views on the topics as set out in the DP.

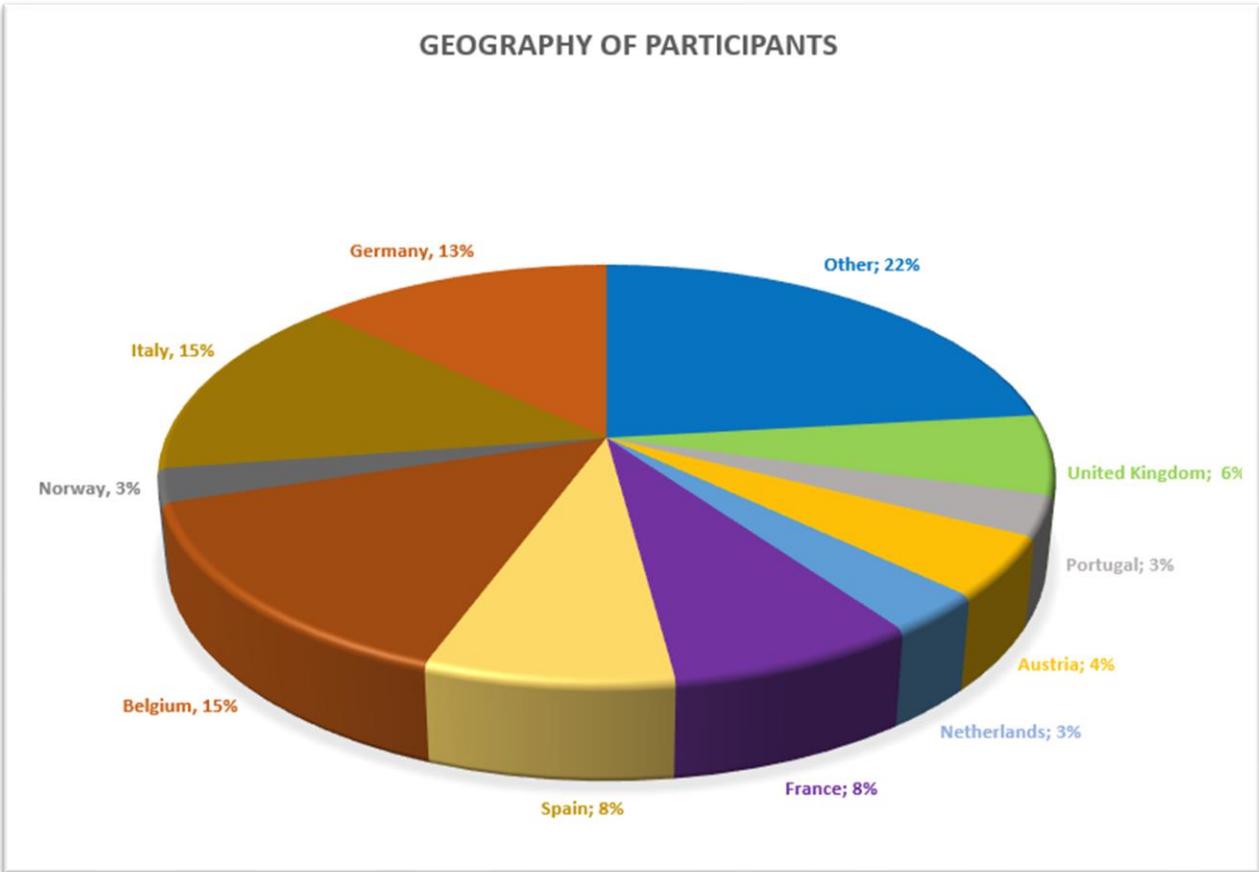
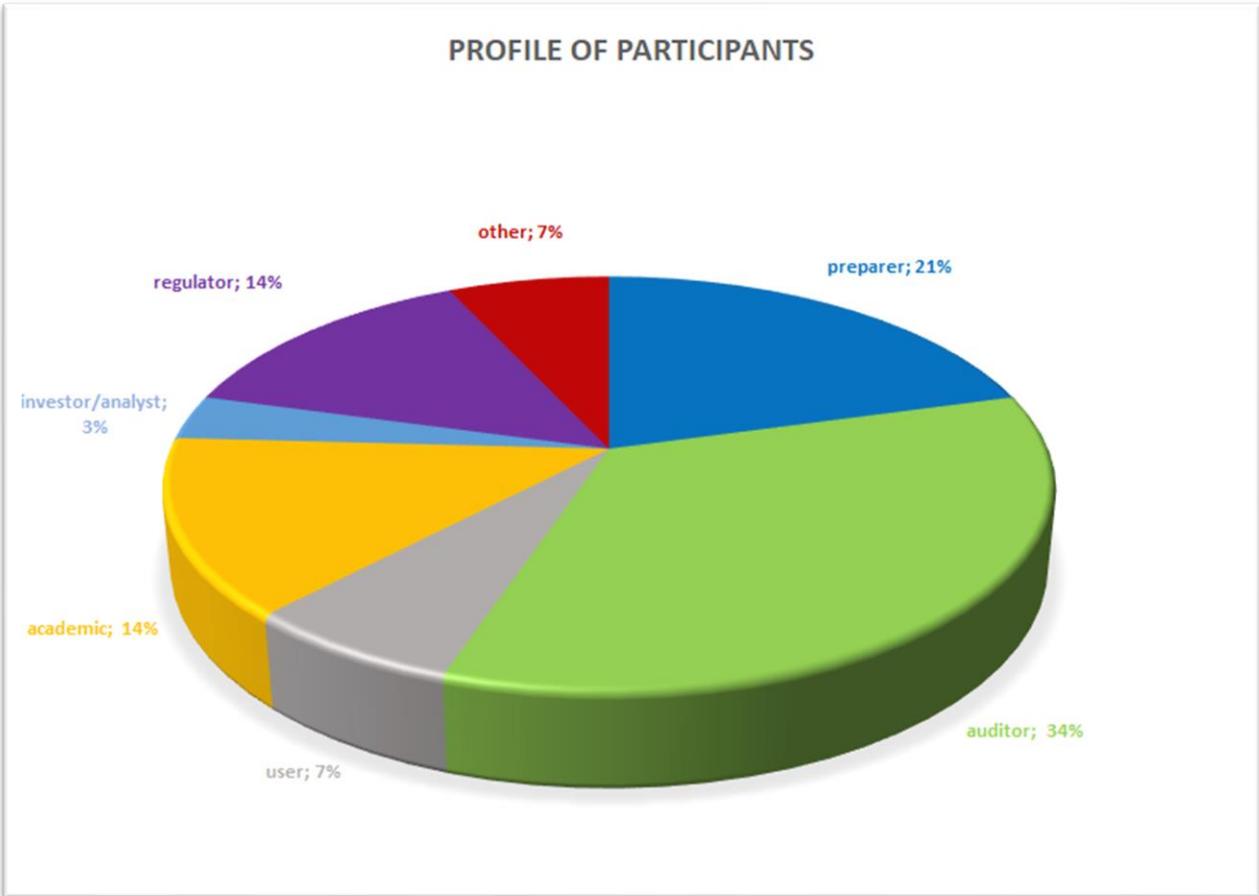
**Chiara Del Prete** summarised the preliminary views of EFRAG on the topics in the DP and explained that accounting for goodwill has been on EFRAG's research agenda for a longer time. She noted that some of the information published by EFRAG has also been taken into account in the DP. Furthermore, she referred to EFRAG's website where respondents can submit their comment letters on the EFRAG Draft Comment Letter ('the DCL') till 30 November 2020.



**Olivier Scherer**, Partner PwC France, EFRAG TEG member and moderator of this online joint outreach event, introduced the speakers and panellists, and provided an overview of the agenda, consisting of the four main topics:

- Improving disclosure about business combinations;
- Improvements to the goodwill impairment test;
- Indicator only approach;
- Reintroduction of amortisation of goodwill.

Polling survey – The profile of participants in the outreach event and their geography is summarised below:



## Presentation and discussion

### Topic 1: Improving disclosure about business combinations

#### Presentation



**Tim Craig**, IASB Technical Staff, presented the IASB's preliminary views on disclosures about acquisitions and set out the proposed disclosure requirements to meet the needs of investors relating to information that would enable them to assess the subsequent performance of an acquisition.



**Rasmus Sommer**, EFRAG Senior Technical Manager, presented the preliminary EFRAG views as included in the EFRAG DCL and highlighted some aspects that deviate from the IASB's preliminary views. He addressed topics on which EFRAG seeks constituents' inputs.

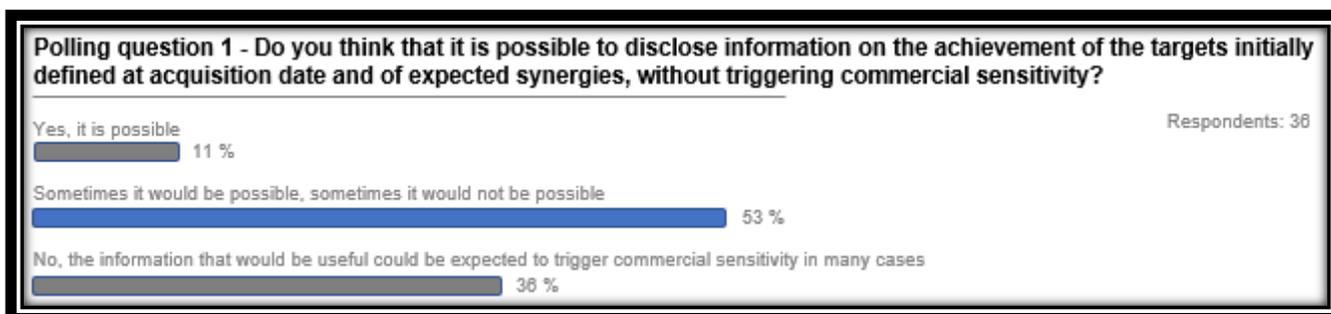
#### Discussion



**Javier Hombria**, Finance Analyst, confirmed that the proposed disclosures are useful as users need these to hold management accountable for their decisions. To hold management accountable for investing and using the resources of shareholders, it needs to know what management wants to achieve and measurements are necessary.

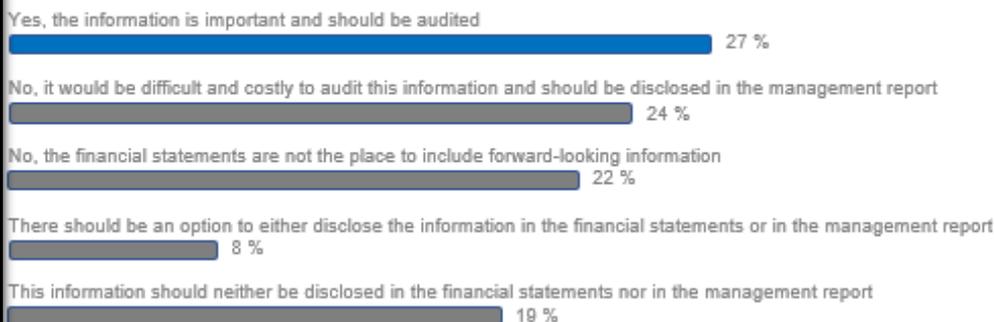


**Emanuele Flappini**, Head of Planning and Financial Reporting at Mediobanca, stated that sensitive information has to be managed carefully. He noted that the required disclosures can be commercially sensitive, and synergies, in particular, can also have internal and organisational impact. Therefore, Mediobanca avoids disclosing this information internally or externally. While this information can be useful, it is important to avoid unnecessary cost. The cost of preparing the disclosures for a single cash generating unit ('CGU') or a period longer than one year after the acquisition can result in significant cost. Furthermore, users may be mainly interested in information on a segment level which would on the other hand ensure the appropriate quality of information provided. Information on acquisition level might not be complete or can only be derived on the lower level with the necessary quality at additional cost. In his view, the proposed disclosures are forward-looking by nature and therefore would be appropriate to include in the management commentary rather than the financial statements. Finally, he mentioned cost benefit issue relates as well to the Purchase Price Allocation performed in the first year of acquisition.



**Polling question 2 – Do you agree with the IASB’s proposal to present the proposed information in the notes to the financial statements?**

Respondents: 37



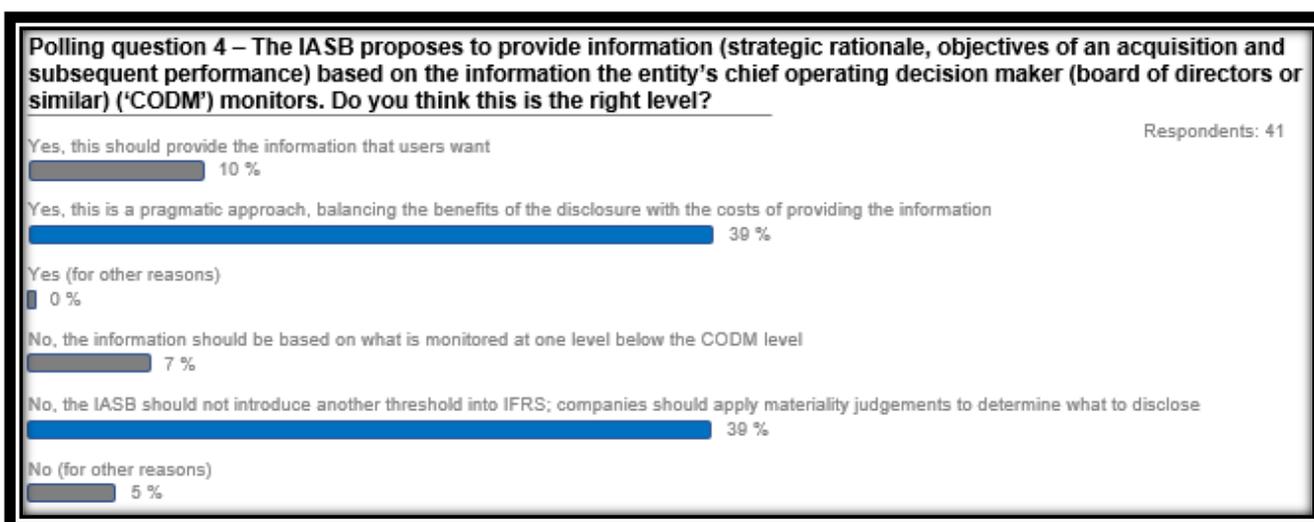
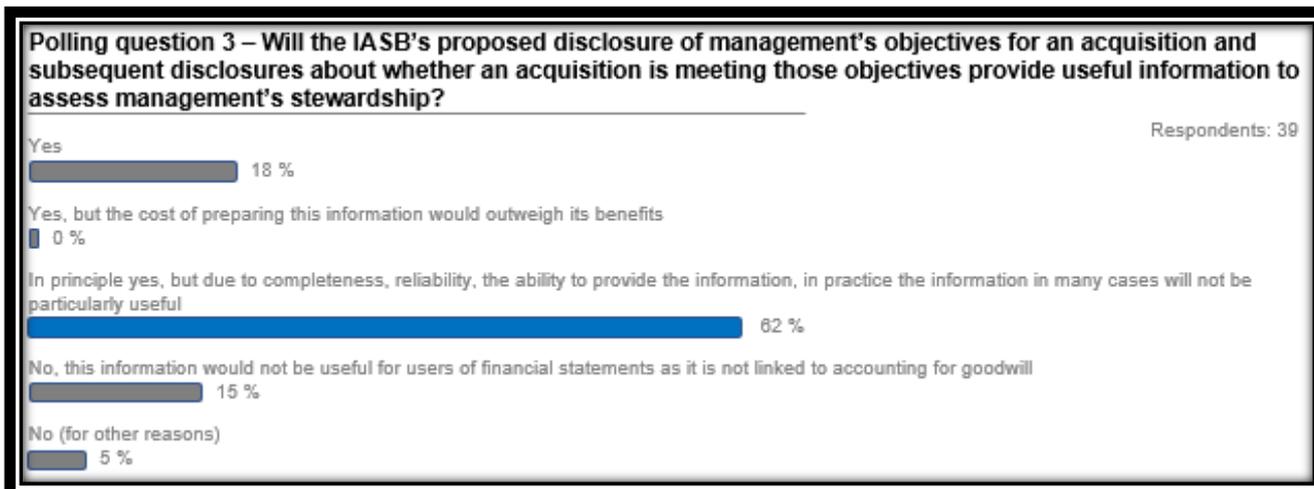
**Leo van der Tas**, Senior Technical Partner at EY The Netherlands, commented on [polling question 2](#), and welcomed the proposed changes to the disclosure requirements. He stated that the location of the proposed information should be determined considering that part of the information is forward-looking. To include or audit forward-looking information in itself might not be an issue, but the new disclosures would include management perception of the results and the management expectations about a particular business combination which raises

audit issues. Considering the nature of the information, some of it might be best placed in financial statements while some of it would be best placed in the management commentary. The IFRS Practice Statement: *Management Commentary* is voluntary and therefore, the practicality of disclosing such information should be assessed in a field test.

He also agreed with EFRAG’s preliminary view that information needs to be disclosed based on the level at which the success of an acquisition is monitored which could be information at a lower level in the organisation than such provided to the chief operating decision maker (‘CODM’). In addition, more guidance is needed to reduce the divergence in practice in preparing the proforma information as currently required by IFRS 3.



**Robert Braun**, member of the German Financial Reporting Enforcement Panel, noted that the expressed views are his personal views and confirmed the usefulness of the proposed disclosures in general. He raised practicability concerns as companies often integrate newly acquired businesses and stop monitoring such acquisitions relatively early. Additionally, linking the disclosure requirement to available management information contradicts the overall objective of the new disclosures.



**Tim Craig** commented on [polling question 1](#) that the IASB would like to hear from stakeholders why the information could be commercially sensitive and stated that according to investors, information is already provided by companies in press releases, investor presentations, etc., when acquiring a business. Therefore, it is unclear how a follow-up to this information that has been already published can be commercially sensitive. This is further challenged by investors stating that if some of the information is commercially sensitive this is part of the cost of being listed and being able to use investors capital to make the acquisition, enabling investors to hold managers accountable.

On [polling question 2](#) he explained that given the voluntary nature of the IASB's practice statement on management commentary, the IASB has proposed to require the disclosures to be provided in the financial statements. The IASB would welcome stakeholders to explain how they would encourage companies to provide the proposed information if it is part of the management commentary.

Finally, he commented on [polling question 4](#) and stated that the CODM level has been chosen to focus on the most important business combinations. If the disclosures were made using a normal materiality level, he asked stakeholders to consider how onerous providing this information would be?

**Audience question:** *What about metrics that might be difficult to audit (estimates of synergies for instance)?*

**Audience comment:** *Many of the metrics will either be non-financial (like achieved market-share in a specific market) or non-IFRS figures (i.e. numbers defined solely by the company). From an audit perspective and in terms of reliability this could be a big issue if included in the financial statements. Therefore, I do not believe that this kind of information should be presented in the IFRS section of the annual report.*

**Leo van der Tas** confirmed that some information will be more difficult to audit as they might be non-financial and non-GAAP measures. As an example, he mentioned management analysis and perception on the achievement of objectives. He expressed concern about verifiability of some of the proposed information. He also noted the link with the current IASB project relating to general presentation and disclosures regarding management performance measures. Depending on the measures used the use of non-GAAP measures might require disclosures under the new standard.

**Audience question:** *Disclosure of the expected synergies may trigger legal questions, as it effectively discloses the price range that the acquirer is looking at. In this regard, the transaction price might be challenged by regulators and tax authorities. Further, it may deteriorate the negotiation position of the acquirer for future acquisitions. Do you have an opinion on that?*

**Robert Braun** confirmed the usefulness of these disclosures and agreed with the challenges.

**Emanuele Flappini** added that in practice the transaction price is the result of negotiations between the two involved parties and does not necessarily express the expected synergies. He explained that a too simplistic approach could result in a mechanical and arithmetical approach for such complex transactions triggering unnecessary impairments.

**Audience question:** *When multiple acquired businesses are integrated into a combined business, would the information based on the combined entities still be of value to investors? There is a potential that the aggregated information would not have any benefit towards the assessment of the performance of a single acquisition.*

**Tim Craig** noted that the IASB has not looked into this specific issue, but the answer depends on the way management is monitoring these acquisitions. He pointed out that if management discloses the way it monitors the acquisitions, and management believe the best way to monitor whether the business combination is a success is on a combined basis, insight on the objectives and metrics used, will be useful for the investors to make their own assessment whether the business combination was a success.

**Javier Hombria** agreed with the statement that investors need information on acquisitions especially when the organisation grows through multiple acquisitions. He stated that investors need to be able to have insights in the information available at management level in order to hold them accountable for the way the capital of the investors is used.

**Audience question:** *Does the IASB think that investors will 'reward' companies for disclosing information which could make the intended strategy impossible to implement?*

**Javier Hombria** confirmed that companies who provide transparency in a consistent way will be rewarded on long term.

**Audience question:** *Can you give any more detail on how widespread the feedback from investors has been, asking for this additional information on the subsequent performance of acquisitions?*

**Rasmus Sommer** commented that investors and users often expressed their need to obtain information regarding the subsequent performance of a business acquisition instead of disclosures on goodwill since they do not have interest in the goodwill figure. However, there is no information on the quantity of these requests.

**Audience question:** *Could the IASB consider a waiver for commercially sensitive information similar to that under IAS 37?*

**Tim Craig** stated that the exemption in IAS 37 is very specific and allowing a similar exemption in this particular case brings the risk that companies can simply argue that the information is commercially sensitive which would result in less disclosure. Therefore, the IASB is looking for detailed feedback from stakeholders to explain why and how the required information will be commercially sensitive.

## Topic 2: Improvements to the goodwill impairment test

### Presentation

**Tim Craig** presented the IASB's preliminary views and explained that the Board received feedback that the current impairment test does not recognise impairment losses on a timely basis, and is costly and complex. The IASB's preliminary view is that it is not feasible to develop an alternative impairment test that is significantly more effective at reasonable cost.



**Kathrin Schöne**, EFRAG Project Director, presented EFRAG's preliminary view on the IASB proposals. She stated that EFRAG shares the IASB's reservations on the possibility to develop a different and more effective impairment approach. However, EFRAG believes that, without questioning the fundamentals of impairment in IAS 36, there are areas to be considered for improvement. EFRAG suggests that the guidance on allocation and reallocation of goodwill to CGUs is considered 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 seeks constituents' inputs on possible disclosure proposals to mitigate the risk of management over-optimism.

### Discussion



**Diana Nikolaeva**, IVSC Board Member, referred to a series of three articles published by IVSC on the subject to express the valuator's views. She confirmed that the main issue relating to the impairment test is the shielding effect of internally generated goodwill on that generated by an acquisition. Artificial headroom created by the amortisation of acquired intangible assets plays another important role. She explained that probably the most radical solution might be to recognise internally generated intangibles which is a wider topic that might deserve a special

consideration. She also set out possible alternatives to the current impairment test level and considered it useful to test on a lower level. However, while addressing the shielding issue or reducing complexity, the potential improvement alternatives have different pros and cons.

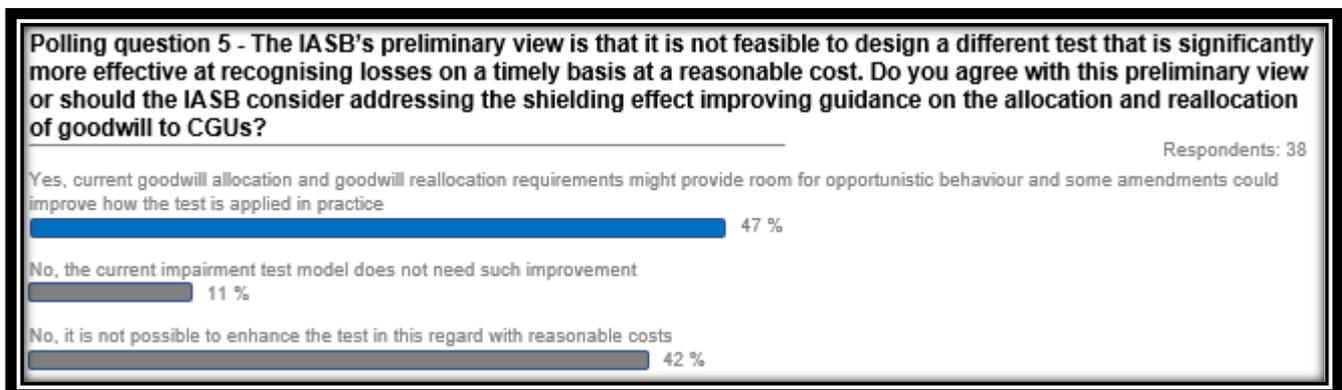
She referred to potential improvements discussed by IVSC like a step-up approach and direct comparison at the request of preparers to reduce costs and complexity. The direct comparison of the recoverable amount at acquisition and at reporting date would make the (sometimes complex and judgmental) determination of the carrying amount of the CGU unnecessary. However, the drivers of the value creation could relate either to the legacy business or to the new acquired business and the origin would not be identified. Finally, the identification of triggering events is key for impairment testing and should be done on a more granular basis. Disclosure of the investment rationale and the key performance indicators for an acquisition could be useful benchmarks for tracking post-acquisition developments.

**Emanuele Flappini** commented on the EFRAG's proposal to address management over-optimism by disclosing a comparison of actual cash flows with previous projections and confirmed that this would be useful disclosure to reduce the risk that companies omit the impairment loss. To link the terminal value

to past improvements and recent performance could be beneficial. One consequence of several major budget shortfalls could be to shorten the planning period before going into the terminal value and e.g. to go into the terminal value after a budgeting period of only one year.

He expressed concern about the IASB's views on headroom. Headroom is useful to speed up the M&A process. Synergies are related not only to the acquired business; synergies might exist in other areas. To link impairment testing only to the acquired business seems to be not appropriate.

**Javier Hombria** stated that it will not be possible to make the impairment test more effective. It is not so much the process itself, but issues are coming from the implementation and management behaviour. He referred to situations where in prior periods management presented acquisitions very positively while subsequently the opposite is true. Internal conflicts (like employees fear to lose their jobs) might prevent that such information will become public. He argued that the main issue is that management should be held accountable, but it is not realistic that internal stakeholders will take up this role as they do not have sufficient authority and protection. Hence, investors should do the monitoring by receiving some information by meaningful KPI and hold management accountable.



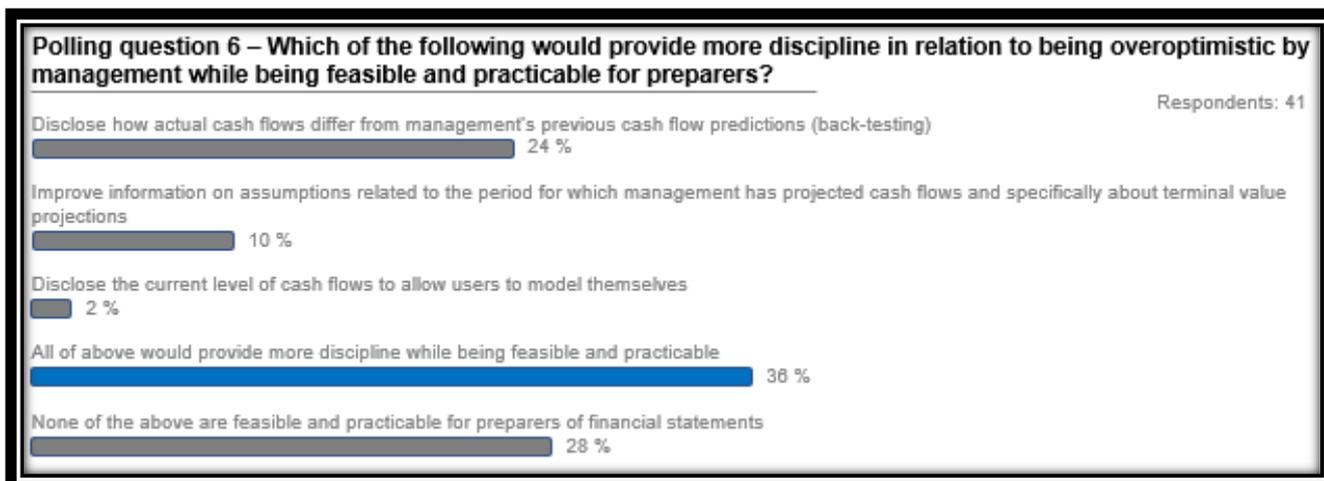
**Anne Jeny**, Professor in the Accounting Department at the ESSEC Business School, explained the results of academic research relating to goodwill impairment. Empirical studies on managerial discretion and timeliness of goodwill impairment could shed light on the “too little too late” statement. Research showed that goodwill impairment is considered complex and at the discretion of management. She noted evidence of the opportunistic use of the impairment test, both from a timing and valuation perspective. This could be associated with a decrease in the degree of conditional

conservatism of financial reporting. If managers opportunistically use their discretion regarding the timing and/or amount of reported goodwill impairment, the resulting disclosure is unlikely to be informative, as they rely on inappropriate impairment inputs. Therefore, information communicated through disclosure would contain more ‘noise’, and therefore investors and financial analysts may disregard the information provided by firms that manipulate impairment tests. This suggests that the real issue is one of application rather than standard setting. Research shows that monitoring and oversight as well as enforcement have a positive impact on enhancing the quality of the impairment test and the related disclosures. In relation to this she referred to a study on the impact of flagging impairment testing as a key audit matter where in those cases the quality and quantity of information, disclosed by the management, improved (Andreicovici, I., Jeny, A. and Lui, D., Do Firms Respond to Auditors’ Red Flags? Evidence from the Expanded Audit Report (June 24, 2020). Available at SSRN: <https://ssrn.com/abstract=3634479>).

**Leo van der Tas** noted that it is important to bear in mind that the objective of the goodwill impairment test in its current form is a test of whether the value of the CGU is not lower than its carrying-amount. So, it is not designed to provide information on subsequent performance of an individual or series of business combinations. Furthermore, he agreed with the IASB that the goodwill impairment test will never be able to test the subsequent performance of a business combination as in most cases the

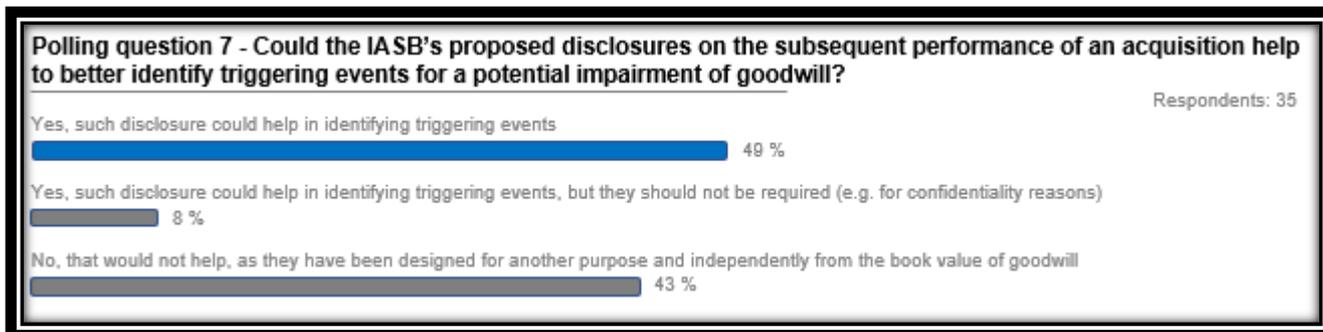
acquired business no longer exists in that form after some time. It is therefore important for the IASB to manage expectation and educate stakeholders on what the objective is of the goodwill impairment test. He added that over-optimism can be (partially) addressed by improving the disclosure requirements or the level of allocation of goodwill to CGUs. For example, similarly to US GAAP or as suggested by EFRAG with one level below segment level by default. He also explained that the risk of failure is not linear over time (gradual decline) but can result in a sudden deterioration and significant impairment losses. He confirmed that in practice auditors observe the same relationship between key audit matters identified by the auditor and the quality of impairment tests as concluded by academic research. Situations where the total of the recoverable values calculated by management for the CGUs exceeds the market capitalization should be explained by disclosures.

**Robert Braun** pointed out that as regulator it is difficult to determine whether the assumptions used in impairment tests are reasonable and supportable as there are no market data available on CGU level to determine the reasonableness and supportability. Management assumptions are derived on a subjective basis and driven by management objectives. Therefore, he suggested that the IASB should include more explanations and application guidance on what is reasonable and supportable. The erroneous of financial statements must be assessed mainly on the basis of these definitions besides any inconsistencies detected. The regulator/enforcer cannot substitute management assumptions. Enforcement can only be as effective as IFRS standards allow. In his view, IAS 36 paragraph 33 is not sufficiently clear to enforce more meaningful cash flow projections. He also noted that companies often use the highest cash flow level reached after the detailed planning period to calculate the terminal value which has no correlation with the business cycle and might not be the stable level of cash flows that should be extrapolated. Therefore, he suggested that an average cash flow level should be prescribed instead. Growth rate, risk rate, interest rate and inflation rate should be balanced and correspond to each other. Additionally, he agreed with EFRAG’s proposals that the allocation of goodwill should take place at the lowest possible level to reduce the shielding effect.



**Audience question:** *Estimates are and should be optimistic because managers are, and should be, optimists. They should believe in what they are doing and in their strategy. Is there a conflict of interest in goodwill impairment test and the motivations of management?*

**Emanuele Flappini** stated that in the last couple of years the participation and involvement of independent supervisory board members has increased, and this has increased challenges to management optimism.



### Topic 3: Indicator only approach

#### Presentation

**Tim Craig** presented the IASB proposals to address the cost and complexity of the impairment test explaining the IASB's preliminary view to remove the requirement to test CGUs containing goodwill for impairment at least annually, and only perform a quantitative test if there is an indicator of impairment. He provided a summary of some mixed views about this proposal and explained the IASB's considerations in reaching this preliminary view.

**Kathrin Schöne** explained that EFRAG has reservations in introducing an indicator-only approach. EFRAG is concerned that such approach might have impact on the robustness and effectiveness of the test and could lead to a loss of information for users.

#### Discussion

**Anne Jeny** introduced that relevant research show that how the goodwill impairment test is performed and disclosed is an important component of financial reporting as providing relevant information for financial statements users. She considered that financial markets have clear negative reactions when an impairment loss is identified. Besides this research show that following an impairment loss announcement, companies also experience lower analyst forecast accuracy and higher analyst forecast dispersion. She also considered that prospective information disclosed on goodwill impairment are negatively associated with the cost of equity, and as such having a direct impact on the financing side of a company. Finally, she stated that an increase in the level of disclosure transparency decreases disagreement among analysts and between analyst and managers about the impairment of goodwill and the underlying earnings forecast (see Andreicovici, Jeny, & Lui (2020). Disclosure Transparency and Disagreement Among Economic Agents: The Case of Goodwill Impairment. *European Accounting Review*, 29(1)). Based on this, she concluded that an annual impairment test has the advantage of informing about the evaluation trend on goodwill that make it easier for users to catch an opportunistic use of goodwill. Another useful aspect is that IAS 36 has the virtue of linking the publication of financial information with the company's strategy.

**Leo van der Tas** recognised that the indicator-only approach could save costs and be more practical. On the other hand, such an approach could potentially exacerbate the perceived risk of management over-optimism and the subjectivity of the impairment test. In his view, if the IASB would follow this approach, it would be really important that the indicators would be made very robust to lead to the desired outcome. He suggested keeping the annual impairment test as a default approach unless clear evidence that it is not needed. This will ensure robustness of the impairment test. Furthermore, a disclosure comparing the market capitalisation and the carrying amount of a CGU would be good to test management assumptions and estimates against the market.

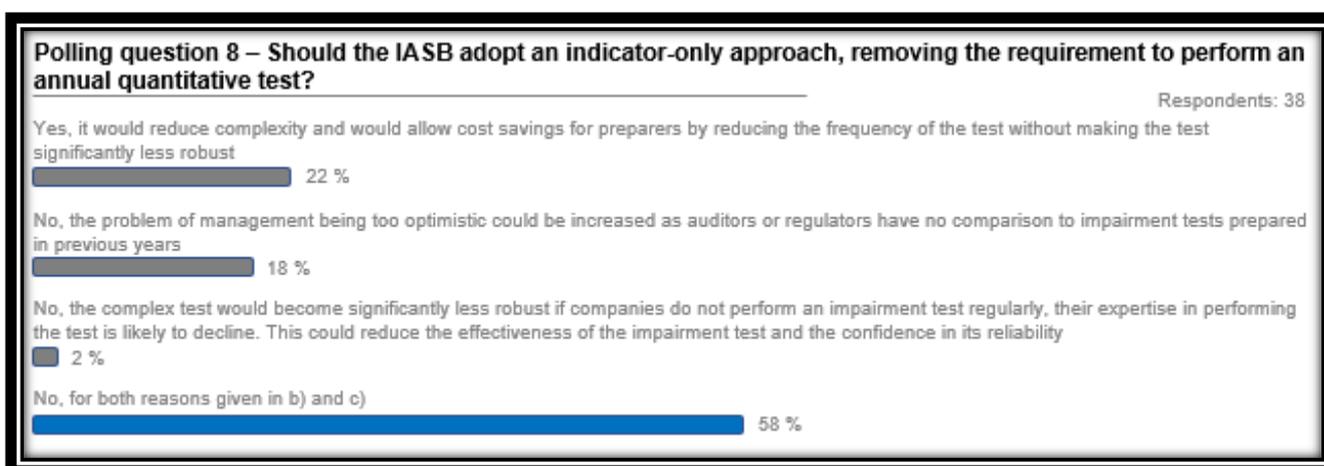
**Emanuele Flappini** stated that he would be in favour of the indicator-only approach, for acquisitions that had been made many years earlier and that historically did not show any issue, as well as for these that present a large headroom. He expressed the view that, in these circumstances, the impairment test is costly and less meaningful. Different approaches might be necessary for recent acquisitions and some major acquisitions.

**Javier Hombria** indicated that when significant gaps occur between market capitalisation and the entity value, management tends to be quite reluctant to identify impairment. He stated that in these

circumstances, in his experience, management argues that market value does not consider the “equity story” and that the situation is expected to turn around. Therefore, he concluded that the relationship between the market capitalisation and the entity value often does not work in practice.

**Robert Braun** expressed his concerns that the proposal would enlarge the scope of management’s judgment and would lead to it being even more difficult to recognise an impairment loss on goodwill. Therefore, this proposal contradicts the overall purpose of the project. Finally, goodwill balances within preparers’ financial statements have dramatically increased in the last few years. The removal of the requirement of an annual impairment test would further contribute to this trend and the expected cost savings would not compensate the related decrease on the robustness of the impairment test.

**Diana Nikolaeva** reported the IVSC’s view that, in the current impairment framework, impairment indicators are too broadly outlined. The IVSC recommends that these indicators are tied more directly to the same KPIs, criteria and disclosures made at the acquisition date. The IVSC also considers that it would not be costly to define more specific KPIs and criteria. For example, the expected internal rate of return of the acquisition could be compared to the entity’s cost of capital and could be a good indicator of impairment. Finally, she concluded that the impairment triggers could be made more balanced by considering both external-oriented factors and entity-related KPIs.



**Audience question:** *Is there a risk of postponing the recognition of an impairment even more if the quantitative annual impairment test is weakened? Currently, we see impairments even when there are no obvious triggers for impairment tests.*

**Emanuele Flappini** replied that it would depend on the kind of triggers used in assessing impairment. If triggers would be “point-in-time” based and not require a forward-looking assessment, that could reduce over-optimism.

**Tim Craig** explained that a review of impairment triggers would follow if the outcome of the IASB’s redeliberation is to pursue an indicator-only approach. He noted the proposed disclosures on subsequent performance of a business combinations might represent a good impairment trigger. The IASB considers that it is unlikely that there would be a material impairment without there being an indication of impairment that a company would be able to identify and if stakeholders think this could occur, the IASB would appreciate some examples of where that might happen. The IASB would also appreciate feedback from stakeholders that believe there is more judgment in an indicator based test than a quantitative test or that it would be more difficult to challenge those judgments in an indicator based test, particularly with examples illustrating where that is the case.

## Topic 4: Should the reintroduction of amortisation of goodwill be considered?

### Presentation

**Tim Craig** listed the arguments for amortisation and for the impairment-only approach, as put forward by stakeholders. The IASB's preliminary view by a narrow majority, is that the impairment-only approach should be retained. Nevertheless, the IASB would welcome any new arguments or evidence that would help the IASB move forward on this topic.

**Chiara Del Prete** stated that EFRAG has not formed a view on the reintroduction of amortisation and similarly to the IASB, EFRAG TEG and the EFRAG Board have mixed views on the topic. Furthermore, the discussions at CFSS showed that, even between stakeholders from the same jurisdiction, views are split as well. Therefore, EFRAG is seeking views from its constituents and has raised questions to its constituents in the Draft Comment Letter.

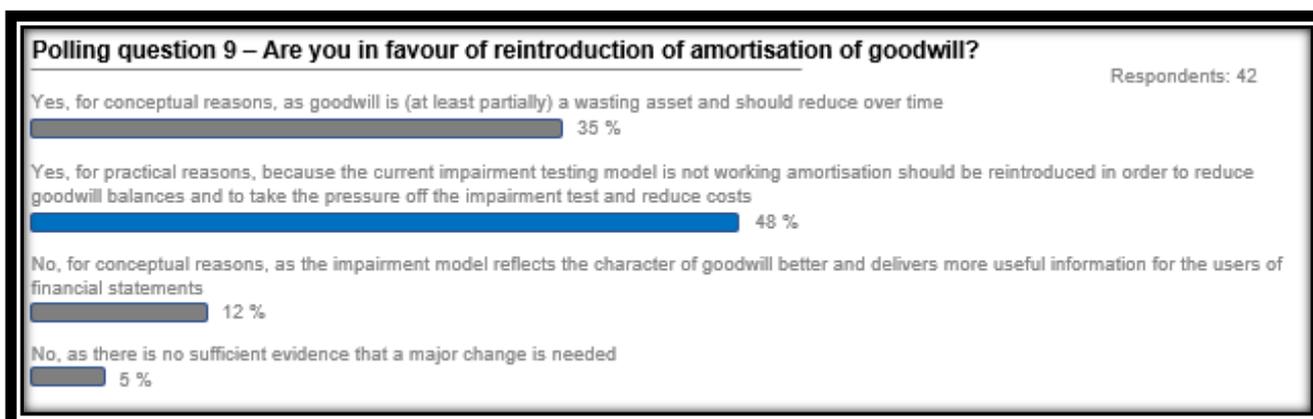
### Discussion

**Leo van der Tas** stated that new conceptual arguments are hardly to be expected after so many years of discussion. He recognised that the amortisation would at least relieve some pressure from the impairment test. The impairment issue would not be solved but may be less profound. However, in his view, the amortisation period would be arbitrary, and users generally tend to ignore the amortisation charge. It is also important to coordinate with the FASB about this issue from a US GAAP perspective, as the amortisation, or not, of goodwill is seen by many as a potential issue in terms of level-playing field in the M&A market.

**Anne Jeny** stated that research provided evidence that goodwill is perceived as an asset, as there is a positive relation between equity market values and reported goodwill. The market can distinguish between valuable and less valuable parts of the goodwill, and that the value relevance increased after the adoption of IFRS with the implementation of the impairment test. There is some evidence that goodwill amortisation might understate the goodwill value decline as perceived by stock markets. She expressed concerns that the amortisation would bring additional area of judgment, such as the determination of the amortisation period, and that users would lose useful information inherent in the impairment test about the underlying business. The economic meaning of goodwill amortisation, especially if linear is unclear and there would be a risk of a disappearance of the impairment of goodwill if goodwill is amortised.

**Diana Nikolaeva** reported that the valuation experience indicates that goodwill contains important assets which are not wasting in nature (i.e. company's reputation, assembled workforce, going concern value). Therefore, it would be challenging for the amortisation to capture the useful life of the underlying components and would probably not support understanding the value creation process of a company.

**Robert Braun** expressed his preference for the re-introduction of amortisation as, even if he shares academic views that goodwill is not a wasting asset, the current impairment framework model failed to provide timely and significant impairment recognition. He also recognised there would be possible areas of debate, such as the amortisation period. He concluded that the amortisation would also reduce the continuous increase of goodwill recognised within balance sheets, which impacts negatively on the economic system.



**Javier Hombria** said that due to digitalisation and new business models, the relevance of intangible assets is continuously increasing and that goodwill is even more important in any M&A operation. He expressed his preference for the reintroduction of amortisation, as impairment test failed to work because of companies' internal conflict of interest, leading to significant amount of economic damages to the markets. Therefore, this approach would introduce certain limitations to this and would be more a practical solution.

**Emanuele Flappini** recognised that reintroducing amortisation would contribute to reducing the amount of goodwill recognised in the balance sheet and concerns related to practical issues, such as the determination of the amortisation period. This would lead to a further decrease of the effectiveness of the impairment test, which companies would be required to perform in certain circumstances, resulting to undifferentiated accounting for successful and unsuccessful acquisitions. Furthermore, the reintroduction of amortisation could potentially prevent companies to acquire entities to the extent that it would reduce their profitability measures.

**Audience questions:**

- *What are participants views on estimating useful life and pattern of consumption in an amortisation calculation, should amortisation be reintroduced?*
- *Is useful life of goodwill not as subjective as the estimates needed for impairment tests?*

**Tim Craig** clarified that the IASB is looking whether there is compelling evidence to change the accounting and whether such a change would be a significant improvement in financial reporting. Based on what the IASB has heard up to now, companies would likely add back the amortisation charge in their reports to investors, as it would not really reflect the economics of their business, and many investors said they wouldn't find an amortisation charge that useful. He questioned whether and why this would be a real improvement in financial reporting. He also asked stakeholders to consider whether the objective of the subsequent accounting for goodwill should simply be to get rid of goodwill, is that the right objective to have?

**Olivier Scherer** shared two comments received from the audience:

**Comments from the audience:**

*With the effectiveness of old business models eroding, time is also an indicator. Digitization and new disruptive communication and sales channels make indefinite useful lives a no longer justifiable hypothesis. Given the business environment, amortisation should be the regular treatment.*

*The fact that many constituents in their feedback to the PIR have raised concerns to the "too little too late" issue and the fact that goodwill amount are increasing in the balance sheet is also new evidence. And finally, the recent Covid-19 crisis also seems to provide new evidence.*

## Closing of the event

**Chiara Del Prete** stated that feedback received during the event broadly confirmed key points of the debate and preliminary views of EFRAG, but also provided some interesting new perspectives. She thanked the audience for the feedback and prompted that preparers can still complete the EFRAG survey. She also encouraged the audience to provide comment letters by the end of November 2020. She thanked Olivier Scherer for moderating the panel and the panel members for their participation.

**Martin Edelmann** thanked the panel members for the comments provided and the audience for their questions. He recognised the value of the views provided on each specific topic, but also highlighted the importance of considering all the proposals as a whole, as the topics are interrelated. For example, the package is improving the disclosures which may be a solution if we cannot improve the robustness of the impairment test. Finally, he invited everyone to provide comments to the IASB's discussion paper by the end of December 2020.

## Appendix – Other audience questions/comments not discussed during the outreach

<p>This of disclosures are usually part of the financial communication for material acquisitions; how do we ensure that financial statements do not end up being copy and paste of press releases?</p>
<p>With regard to the proposed requirement to disclose the metrics of monitoring together with the objective of the business combination, I see a risk there may be sensitive information contained, e.g. by looking at targeted market shares, sales volumes, etc. that would not be required by companies that try to reach these goals by organic growth. What are your thoughts on that? Thank you.</p>
<p>We see many companies delisting. Is the cost of being listed becoming too high when comparing to private equity companies (or private equity funds companies)?</p>
<p>Is the IASB concerned that this disclosure lead to fewer acquisitions by European companies? Will this hurt innovation, with start-ups not being purchased and therefore not able to bring innovations to market with the resources of the merged group?</p>
<p>The term "synergies" is not a pre-defined term. If required to disclose, an explanation and definition should be provided.</p>
<p>If competitors can pre-empt the strategy it becomes impossible to implement. It is about competitive sensitivity.</p>
<p>In highly competitive markets, disclosing objectives for an acquisition may give the competition a head-start and enough time to engage in counter measures that in turn would hinder the success of the combination.</p>
<p>If the company announces its strategy in advance, competitors could take actions which make it impossible to implement. This would destroy value for investors.</p>
<p>The current Covid-19 crisis (the biggest crisis since the depression in 1929) where the number and amount of impairments until now have been very limited seems to confirm that the impairment test are broken - and the current proposal doesn't seem to solve that issue. The IASB should follow up on that.</p>
<p>Has it been assessed whether goodwill should be separated into different components or parts? Such components could be the difference between fair value and nominal value of deferred tax, contingent assets and other. Such components could be derecognised if a specific event occur or amortised if that better reflect the pattern economic benefits are consumed by the entity.</p>
<p>During the purchase price allocation there seems to be a shift from capitalisation of depreciable intangible assets to goodwill.</p>
<p>Goodwill older than e.g. 10 years should need an explicit justification to remain recognised. Given the business environment, amortisation should be the regular treatment, and not the exception.</p>
<p>Does impairment test model give motivation to big bath accounting? Do you think that this year (2020) we will see overestimates of goodwill impairments?</p>

Contributions may have been edited for length or clarity.