Business Combinations—Disclosures, Goodwill and Impairment

Business Combinations—Disclosures, Goodwill and Impairment Questionnaire: Preparers of financial statements

(a) What is your primary sector/industry category?

- (i) Mining and constructions
- (ii) Manufacturing
- (iii) Transportation and utilities
- (iv) Retail
- (v) Finance, insurance and real estate
- (vi) Services
- (vii) Other (Please explain what category)

(b) Does your organisation have significant operations in the European Economic Area (EU, Norway, Liechtenstein and Iceland)?

- (i) Yes
- (ii) No

(c) In what region(s) does your organisation have significant operations (select all that apply)?

- ☐ (i) European Economic Area (EU, Norway, Liechtenstein and Iceland)
- ☐ (ii) Other Europe
- ☐ (iii) North America
- ☐ (iv) Asia-Pacific
- ☐ (v) Oher Markets (South and Central America, Middle East/Africa)

(d) Please specify whether your financial reporting is in accordance with IFRS.

- ○ (i) Yes
- ○ (ii) No
- ○ (iii) Apply both IFRS Standards and Other GAAP's

(e) What is an indicative level of your organisation's total assets on the consolidated statement of financial position (e.g. as at 2019 year-end)?

- ○ (i) Less than €0,5 billion
- ○ (ii) ≥ €0,5 billion and less than €30 billion
- ○ (iii) ≥ €30 billion

(f) Within your capital structure, what is the current proportion of goodwill, relative to total assets? Please provide either the specific or approximate proportion (in percentage terms) as at 2019 year-end.

- (i) Less than 10%
- (ii) 10% to less than 20%
- (iii) 20% to less than 50%
- (iv) ≥ 50%

(g) Within your capital structure, what is the current proportion of goodwill, relative to total equity? Please provide either the specific or approximate proportion (in percentage terms) as at 2019 year-end.

- (i) Less than 10%
- (ii) 10% to less than 20%
- (iii) 20% to less than 50%
- (iv) ≥ 50%

(h) Does your organisation regularly (at least one in two years) enter into business combinations?

- (i) No
- (ii) Yes

(i) At which level goodwill is normally allocated by your organisation?

- (i) Normally goodwill is allocated at reporting entity level.
- (ii) Normally goodwill is allocated at IFRS 8 segment level.
- (iii) Normally goodwill is allocated at the below segment level.

(j) May we contact you if we have questions about your response?

- (i) No
- (ii) Yes, please provide your contact details:

(untitled)

9. The DP proposes to disclose information about the strategic rationale and management's objectives for an acquisition based on how management (the chief operating decision maker's (CODM's)) monitors and measures whether the acquisition is meeting its objectives. Do you consider that this approach is feasible for you?
(Please describe your response)

- Yes
- No
- No, it should not only be based on what information the CODM monitors

10. Please indicate the usefulness of the following IASB proposals for enhanced disclosures for business combinations:

	Your assessment on usefulness			
	Not useful	Partially useful	Useful	No opinion
A requirement to disclose information about the strategic rationale and management's (the chief operating decision maker's (CODM's)) objectives for an acquisition as at the acquisition date	○	○	○	○
A requirement to disclose information about whether the acquisition has met the expected objectives. That information should be based on how management (CODM) monitors and measures whether the acquisition is meeting its objectives, rather than on metrics prescribed by the IASB	○	○	○	○
A requirement to provide information to help investors to understand the benefits that a company's management expected from an acquisition when agreeing the price to acquire a business	○	○	○	○
A requirement to disclose information on synergies (description of the expected synergies, when the synergies are expected to be realised, the estimated amount or range of amounts of the synergies, the expected cost or range of costs to achieve those synergies)	○	○	○	○
Disclosures of any liabilities arising from financing activities and pension obligations assumed	○	○	○	○
Disclosures of an acquiree's revenue, operating profit or loss before acquisition-related transaction and integration costs, and cash flow from operating activities after the acquisition date	○	○	○	○
Disclosures of revenue, operating profit before acquisition-related transaction and integration costs and cash flows from operating activities of the combined business for the current reporting period as though the acquisition date had been at the beginning of the annual reporting period	○	○	○	○

at the beginning of the annual reporting period

11. What is your estimation of the level of general **incremental costs** that may result for your organisation from the IASB proposals for enhanced disclosures for business combinations?

	Incremental cost				
	None	Minimal	Moderate	High	Difficult to assess
A requirement to disclose information about the strategic rationale and management's (the chief operating decision maker's (CODM's) objectives for an acquisition as at the acquisition date	○	○	○	○	○
A requirement to disclose information about whether the acquisition has met the expected objectives. That information should be based on how management (CODM) monitors and measures whether the acquisition is meeting its objectives, rather than on metrics prescribed by the IASB	○	○	○	○	○
A requirement to provide information to help investors to understand the benefits that a company's management expected from an acquisition when agreeing the price to acquire a business	○	○	○	○	○
A requirement to disclose information on synergies (description of the expected synergies, when the synergies are expected to be realised, the estimated amount or range of amounts of the synergies, the expected cost or range of costs to achieve those synergies)	○	○	○	○	○
Disclosures of any liabilities arising from financing activities and pension obligations assumed	○	○	○	○	○
Disclosures of an acquiree's revenue					

Disclosures of an acquiree's revenue, operating profit or loss before acquisition-related transaction and integration costs, and cash flow from operating activities after the acquisition date	○	○	○	○	○
Disclosures of revenue, operating profit before acquisition-related transaction and integration costs and cash flows from operating activities of the combined business for the current reporting period as though the acquisition date had been at the beginning of the annual reporting period	○	○	○	○	○

12. Please indicate the complexity of the following IASB proposals for enhanced disclosures for business combinations:

	Complexity				
	Not Complex	Partially complex	Complex	Very complex	No opinion
A requirement to disclose information about the strategic rationale and management's (the chief operating decision maker's (CODM's)) objectives for an acquisition as at the acquisition date	○	○	○	○	○
A requirement to disclose information about whether the acquisition has met the expected objectives. That information should be based on how management (CODM) monitors and measures whether the acquisition is meeting its objectives, rather than on metrics prescribed by the IASB	○	○	○	○	○
A requirement to provide information to help investors to understand the benefits that a					

company's management expected from an acquisition when agreeing the price to acquire a business	○	○	○	○	○
A requirement to disclose information on synergies (description of the expected synergies, when the synergies are expected to be realised, the estimated amount or range of amounts of the synergies, the expected cost or range of costs to achieve those synergies)	○	○	○	○	○
Disclosures of any liabilities arising from financing activities and pension obligations assumed	○	○	○	○	○
Disclosures of an acquiree's revenue, operating profit or loss before acquisition-related transaction and integration costs, and cash flow from operating activities after the acquisition date	○	○	○	○	○
Disclosures of revenue, operating profit before acquisition-related transaction and integration costs and cash flows from operating activities of the combined business for the current reporting period as though the acquisition date had been at the beginning of the annual reporting period	○	○	○	○	○

13. Please indicate whether the following IASB proposals for enhanced disclosures for business combinations are so **confidential** that if they were detailed in the financial reports your competitors could obtain private-key information of your organisation.

Confidentiality

Confidentiality					
	Not confidential	Partially confidential	Confidential	Strictly confidential	No opinion
A requirement to disclose information about the strategic rationale and management's (the chief operating decision maker's (CODM's)) objectives for an acquisition as at the acquisition date					
A requirement to disclose information about whether the acquisition has met the expected objectives. That information should be based on how management (CODM) monitors and measures whether the acquisition is meeting its objectives, rather than on metrics prescribed by the IASB					
A requirement to provide information to help investors to understand the benefits that a company's management expected from an acquisition when agreeing the price to acquire a					

to acquire a business					
A requirement to disclose information on synergies (description of the expected synergies, when the synergies are expected to be realised, the estimated amount or range of amounts of the synergies, the expected cost or range of costs to achieve those synergies)					
Disclosures of any liabilities arising from financing activities and pension obligations assumed					
Disclosures of an acquiree’s revenue, operating profit or loss before acquisition-related transaction and integration costs, and cash flow from operating activities after the acquisition date					
Disclosures of revenue, operating profit before acquisition-related transaction and integration costs and cash flows from operating activities of the					

combined business for the current reporting period as though the acquisition date had been at the beginning of the annual reporting period

14. Would you have other operational implications on the IASB's proposals for better disclosures on business combinations when preparing the financial information (e.g. quality of data, internal control and auditability).

(Please, explain your response)

- Yes
- No

15. Please indicate **where** the following IASB proposals for enhanced disclosures for business combinations **should be placed**.

	Where it should be placed	
	In the notes to the financial statements	Management Commentary
A requirement to disclose information about the strategic rationale and management's (the chief operating decision maker's (CODM's)) objectives for an acquisition as at the acquisition date		
A requirement to disclose information about whether the acquisition has met the expected objectives. That information should be based on how management		

(CODM) monitors and		
A requirement to disclose information about whether the acquisition has met the expected objectives. That information should be based on how management (CODM) monitors and measures whether the acquisition is meeting its objectives, rather than on metrics prescribed by the IASB		
A requirement to provide information to help investors to understand the benefits that a company's management expected from an acquisition when agreeing the price to acquire a business		
A requirement to disclose information on synergies (description of the expected synergies, when the synergies are expected to be realised, the estimated amount or range of amounts of the synergies, the expected cost or range of costs to achieve those synergies)		
Disclosures of any liabilities arising from financing activities and pension obligations assumed		
Disclosures of an acquiree's revenue, operating profit or loss before acquisition-related transaction and integration costs, and cash flow from operating activities after the acquisition date		
Disclosures of revenue, operating profit before acquisition-related transaction and integration costs and cash flows from operating activities of the combined business for the current reporting period as though the acquisition date had been at the beginning of the annual reporting period		

16. Do you consider the current disclosure requirements on goodwill is already being extensive?

- No
- Yes, but the additional disclosures proposed by the IASB are needed to provide users with information.
- Yes. Any additional disclosure requirements should be considered in the context of overall amount of disclosure requirements, which are already extensive.

17. As a next step in the IASB project, the IASB intends to investigate whether it could remove any of the disclosure requirements from IFRS 3 without depriving investors of material information (IASB DP Paragraph 2.88). Do you have specific input on this topic?

(Please explain your response)

- Yes
- No

18. The following proposal is not included in the DP. However, in looking for ways to reduce the behavioural incentives to the too little too late and enhance discipline in the application of the current measurement requirements, EFRAG is consulting in its DCL on possible additional disclosures. What would be the level of incremental costs that your organisation would incur to provide information on how the impairment test projections have been met and what are the deviations with performance obtained, within a sensitivity analysis?

- None
- Minimal
- Moderate
- High
- Difficult to assess

19. IAS 36 requires entities to disclose information of the terminal value, and the projection to reach to the terminal value. For the terminal value quantitative disclosures are normally provided, but for the intermediate period preceding the terminal value (e.g. projections of year 4, year 5), projections are currently normally not required in financial reports. In looking for ways to reduce the behavioural incentives to the too little too late and enhance discipline in the application of the current measurement requirements, EFRAG is consulting in its DCL on possible additional disclosures. Do you consider disclosing information on how the projections not included in approved budget have been estimated will be costly and complex?

- None
- Minimal
- Moderate
- High
- Difficult to assess

(untitled)

20. One of the reasons to initiate the project was the recognition of impairment losses “too little too late”. Acquired goodwill could be shielded from impairment by unrecognised headroom of the legacy business that becomes part of the tested unit past acquisition. Do you consider that the current guidance on the initial allocation of goodwill to (a group of) CGUs or to test at least on segment level should be further developed? Do you consider that in addition, or at least, the current guidance on the reallocation of goodwill based on the relative value approach should be further developed because such guidance might contribute to the shielding?

- Yes
- Yes, at least the guidance on reallocation of goodwill should be further developed.
- No, I think both is not a reason for too little too late.

21. If your previous response is yes, do you think that the benefit from changing such guidance would outweigh costs?

- Yes
- No

22. The IASB identified the management over-optimism as one reason for concerns about the possible delay in recognising impairment losses on goodwill. Some stakeholders reported concerns to the IASB that management may sometimes be too optimistic in making the assumptions needed to carry out the impairment test. In looking for ways to mitigate the management over-optimism and enhance discipline in the application of the current requirements, EFRAG is consulting in its DCL on possible additional disclosure. Please could you evaluate from 1 to 5 whether it would be difficult for you to provide the disclosure and how reluctant (or concerned) you would be to provide the different types of disclosures listed below (5 being very difficult/very reluctant):

	Difficult					Reluctant				
	1	2	3	4	5	1	2	3	4	5
Qualitative disclosures about the achievement of previous estimations (make over-optimism transparent).	○	○	○	○	○	○	○	○	○	○
Information on assumptions related to the period for which management has projected cash flows based on financial budgets.	○	○	○	○	○	○	○	○	○	○
To disclose the current level of cash flows/earnings to allow users to model themselves.	○	○	○	○	○	○	○	○	○	○

(untitled)

23. Do you consider that the current impairment test is too complex and too costly?

○ Yes

○ No

24. If your previous answer is yes, please could you select which are the elements complex and costly of developing impairment test? (Please select all the applicable responses)

- ☐ Calculating the discount rate
- ☐ Making the projections
- ☐ Calculating the WACC
- ☐ Estimating the projections not included in approved budget (for example projections of year 4 or year 5)”
- ☐ Estimating the residual rate
- ☐ The entire process
- ☐ Other (Please describe which other elements of doing impairment test is difficult)

25. The IASB has proposed to remove the requirement to carry out an annual quantitative impairment test for goodwill when no indicator provides evidence of an impairment. Do you consider that this proposal could result in cost-savings for you?

- ○ Insignificant
- ○ Significant
- ○ Very Significant
- ○ Difficult to assess

26. Do you consider that the indicator-only approach could simplify your work in performing goodwill impairment test?

- Yes, in practice my organisation would no longer need to perform an impairment calculation to justify that there would be no indications of goodwill impairment.
- No, in practice my organisation would nevertheless need to perform an impairment calculation to justify that there would be no indications of goodwill impairment (e.g. auditors or stakeholders would ask for justifications).
- No, in practice my organisation would nevertheless need to perform an impairment calculation for other internal control or managerial reasons.

27. If your previous answer is no, please evaluate from 1 to 5 how difficult and costly, the following aspects of the approaches discussed by the IASB would be (5 being most difficult/costly).

	Difficult					Costly				
	1	2	3	4	5	1	2	3	4	5
Approach 1 - require an entity to perform a quantitative impairment test of goodwill in the first year after a business combination and in subsequent years perform the quantitative impairment test only when there are indications of possible impairment.	○	○	○	○	○	○	○	○	○	○
Approach 2 - require an entity to perform a quantitative impairment test of goodwill at least annually (and more frequently whenever there are indications of possible impairment) for the first few years after a business combination — perhaps three to five years — and in subsequent years perform a quantitative impairment test only when there are indications of possible impairment.	○	○	○	○	○	○	○	○	○	○
Approach 3 - require an entity to perform a quantitative test of goodwill less frequently than annually — for example, once every three years — and in the intervening periods perform a quantitative impairment test only when there are indications of possible impairment.	○	○	○	○	○	○	○	○	○	○

28. The IASB has received the feedback that the impairment test is considered to be complex by many preparers. Accordingly, some stakeholders considered that if companies do not perform an impairment test regularly, their expertise in performing the test is likely to decline. Do you consider that it could be difficult for you to execute the complex test in a situation where impairment is triggered?

- No
- Yes, because it would be difficult to set up the model and perform the complex test immediately at the time of indication.
- Yes, because it would reduce reliability because of lack in experience by performing the complex test.
- Yes, because it would expect difficulties in data collection.
- Other

29. If your answer is yes, on the previous question, would the requirement to perform an impairment test e.g. every third year be a possible solution to improve robustness of the test?

- Yes
- No

(untitled)

30. The IASB DP includes a question whether goodwill should be amortised. Do you consider that the amount of goodwill recognised in your organisation is a wasting asset?

- Yes. Please describe why
- No. Please describe why
- Partially. Please describe why, and please specify the wasting components(synergies, reputation, workforce etc.) and the related proportion (approximately) of total goodwill.

31. How should the guidance guidance/requirements in IFRS be set regarding the amortisation period?

- [ ] A default period
- [ ] A cap (or maximum) on the amortisation period
- [ ] A floor (or minimum) on the amortisation period
- [ ] Justification of an alternative amortisation period other than a default period
- [ ] Amortisation based on the useful life of the primary identifiable asset acquired Amortisation based on the weighted-average useful lives of identifiable asset(s) acquired
- [ ] Management's reasonable estimate
- [ ] Difficult to assess. Please describe why

32. If the IASB reintroduce the amortisation model, should this approach be accompanied by an impairment test?

- Yes
- No

33. If your previous answer is yes, when should the quantitative impairment test be performed

- Yearly
- Only when there is an indication of impairment

34. Do you consider that the amount of goodwill recognised in your organisation is an accounting construct or that it represents a real economic asset?

- An accounting construct
- A real economic asset

35. In relation to the debate about whether goodwill should be amortised, do you consider that there are new evidences, new arguments or new assessments of existing evidences that have emerged since 2004 (either in favour or against goodwill amortisation) that should be taken into account? When looking for new evidence and impact analyses, you are also invited refer to other areas of regulation that may provide indirect incentives to prefer one or the other approach, such as tax deductibility of goodwill or prudential treatment of goodwill in case of regulated entities.

- Yes. Please describe which evidences, new arguments or new assessments of the existing evidences have emerged since 2004
- No. Please describe why

36. The following proposal is not included in the DP, however, in looking for ways to reduce behavioural incentives related to the too little too late issue and to enhance discipline in the application of the current measurement requirements, EFRAG is, in the case amortisation is not reintroduced, consulting on whether disclosure of the “age” of goodwill should be introduced. How high do you consider the costs would be of disclosing information about the “age” of goodwill?

- None
- Minimal
- Moderate
- High
- Difficult to assess

(untitled)

37. The IASB has proposed to allow the inclusion of future enhancements in the estimation of future cash flows in the calculation of value in use. Do you consider that the use of unjustifiable optimistic inputs could increase?

- Yes, it could create a potential for earnings management.
- No

38. Do you consider that a guidance on when to include restructuring cash flows in the value in use calculation is needed?

- Yes.
- No.

39. If your previous answer is yes, do you consider setting a threshold of when considering such cashflow is needed?

- Yes
- No

40. If your previous answer is yes, for considering such cashflows, the threshold should be:

- Very highly probable
- Highly probable
- More likely than not
- Difficult to assess

41. Do you think that there are other cash flows (inflows and outflows) that should also be allowed to be included in the value in use calculation (e.g. cash flows from investments that could increase the production capacity for a group of assets that are part of the same cash generating unit)?

- Yes. Please describe which cash flows and why
- No.

(untitled)

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42. The IASB has tentatively decided to remove the explicit requirement to use pre-tax inputs and pre-tax discount rates to calculate value in use. Do you consider that this proposal could reduce the complexity of performing value in use calculation?

- Insignificant
- Significant
- Very significant
- Difficult to assess

43. Do you consider that this proposal would reduce the cost of the goodwill impairment test?

- Insignificant
- Significant
- Very significant
- Difficult to assess

44. Do you consider that further guidance to avoid double counting of tax cash flows in estimates of value in use is needed?

- Yes
- No

45. Do you think that there are other issues or risks that could arise from the use of post-tax inputs in the value in use calculation?

(untitled)

46. The IASB has considered whether it should change the criteria for recognising intangible assets acquired in a business combination. The IASB considers the internally generated intangibles out of the scope of the DP. The IASB concluded it did not have compelling evidence that it should permit or require some identifiable intangible assets to be included in the carrying amount of goodwill, instead of separately recognised and measured. Thus, the IASB's preliminary view is that it should not make any changes. Do you think that recognising intangible assets acquired in a business combination separately from goodwill is beneficial, costly and/or complex? (From 1 to 5 – (5 being most beneficial/complex/costly))

	Benefits					Complexity					Costly				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Recognising intangible assets acquired in a business combination separately from goodwill is beneficial.															

47. Do you have to prepare financial statements in accordance with both IFRS and US GAAP?

- Yes
- No

48. If yes, do you think that convergence between US GAAP and IFRS should be pursued for cost reasons?

- Yes, because even if other requirements (like impairment only model supported by efficient disclosures) would result in more useful information, the benefits would not outweigh the additional costs
- Yes, because even if IFRS requirements could result in more relevant and/or reliable information, comparability of goodwill information between financial statements prepared under IFRS and US GAAP is so important that the information will be most useful if IFRS requirements are similar to US GAAP.
- No, more useful information will outweigh additional costs.
- I do not know, as I do not know whether the benefits of better information would outweigh the costs.
- Other