

EFRAG SECRETARIAT PAPER FOR PUBLIC MEETING

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EFRAG publication of a European quantitative analysis of Goodwill and Impairment

Cover note

Objective

- 1 The objective of the session is to confirm the prior EFRAG Board decision on the publication of a quantitative study on goodwill and impairment and present the proposed content.

Background

- 2 In the context of the post-implementation review of IFRS 3 *Business Combinations*, EFRAG TEG had a number of discussions in 2015 about possible improvements to the impairment test and possible approaches to determine a useful life of goodwill. However, EFRAG TEG did not express a preference between impairment-only and impairment and amortisation. Moreover, EFRAG TEG was able to reach little consensus on any proposal.
- 3 In December, EFRAG Secretariat reported on the outcome of the discussion and lack of consensus. The EFRAG Board required EFRAG Secretariat to perform an analysis of quantitative data on goodwill and impairment across European entities, with a view that quantitative data may offer some evidence and provide a useful background to move further with the conceptual discussion. The current quantitative analysis is the result of the original EFRAG Board request.
- 4 EFRAG Secretariat started to collect quantitative information and discussed initial version of the analysis with both EFRAG TEG and the EFRAG Board. A number of suggestions were made to make the analysis wider and deeper, and EFRAG Secretariat has satisfied most of them. The analysis was eventually based on the entities included in the S&P Europe 350 Index.
- 5 In the meantime, the IASB started its discussion on possible changes to the accounting for goodwill and also concluded that a quantitative analysis would be helpful for the discussion. The ASBJ was conducting a similar analysis for companies outside Europe, and the IASB asked EFRAG and the ASBJ if they would be interested to share their quantitative analysis findings.
- 6 Following the request from the IASB, EFRAG and the ASBJ presented some comparative quantitative data to the IASB in May and to ASAF in July. The IASB welcomed the quantitative data and noted that their publication would be helpful to inform the debate when the IASB would publish their proposals on accounting for goodwill.

- 7 In the prior EFRAG Board discussion, it was agreed that EFRAG should publish the European quantitative data and indicate how they could be used in relation to the conceptual debate. However, EFRAG Board noted that the publication should not explicitly or implicitly suggest an EFRAG support to maintain the current impairment-only model or to bring back annual amortisation of goodwill, as neither TEG nor the Board have reached a position.
- 8 Moreover, it was agreed that the publication would include a comparison of data for the European companies to the non-European companies. This part of the publication would be coordinated with the ASBJ. However the content may need to be adapted by the ASBJ in order for it to be suitable to be published on a stand-alone basis.
- 9 EFRAG TEG also indicated that the quantitative data analysis, in isolation, cannot provide an undisputed indication of what the accounting should be. Therefore, the publication should indicate what are the inherent limitations of the research.
- 10 Appendix 1 to this paper is the proposed table of content. EFRAG Secretariat plans to bring a full version of the paper to the July TEG meeting to have it recommended to the Board for publication; and to the EFRAG Board in September for final approval.

Question for EFRAG Board

- 11 Does the EFRAG Board confirm their agreement to proceed with the publication of the quantitative analysis, based on the above conditions and subject to the final recommendation of EFRAG TEG?

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