

# EFRAG Board meeting

Brussels

17 March 2020



European Financial Reporting Advisory Group

# DISCLAIMER

---

The views expressed in this presentation are those of the presenter, except where indicated otherwise. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

# OVERVIEW

---

OBJECTIVES OF THE IASB PROJECT *GOODWILL AND IMPAIREMENT*

PROJECT TIMELINE

EFRAG KEY MESSAGES ON THE IASB TENTATIVE DECISIONS

EFRAG PAST ACTIVITIES





The IASB project  
*Goodwill and Impairment*

---

# OBJECTIVES OF THE IASB PROJECT

---

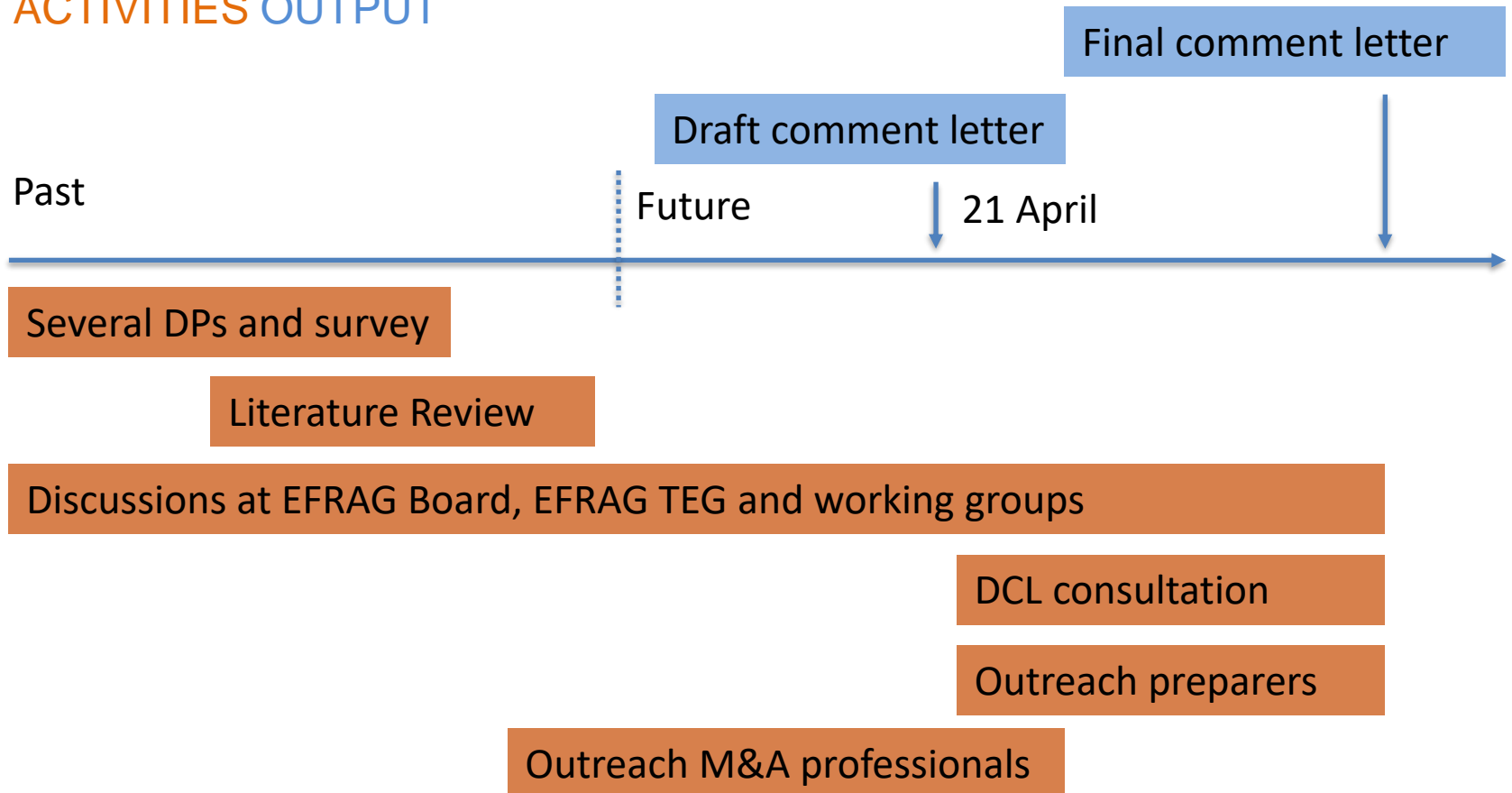
**Objective A** - Identifying **disclosures** to enable investors to **assess** management's **rationale** for the business combination; and whether the subsequent performance of the acquired business, or combined business, **meets expectations** set at the acquisition date

**Objective B** - Exploring whether to **simplify** the **accounting** for goodwill by permitting an **indicator-only approach** to determine when an impairment test is required; and/or **reintroducing amortisation** of goodwill

**Objective C** - Exploring whether to improve the calculation of **value in use** by permitting cash flow projections to include **future restructurings** and future **enhancements** to an asset; and the use of **post-tax** inputs in the calculation of value in use

# PROJECT TIMELINE

## ACTIVITIES OUTPUT



## EFRAG KEY MESSAGES ON THE IASB TENTATIVE DECISIONS

---

### Objective A: Improving disclosures about acquisitions

- **Support** for **disclosure objectives**, but reservations about **practical aspects**

### Objective B: Improving accounting for goodwill

- If discussion to be reopened, majority of EFRAG TEG would **support goodwill amortisation** (EFRAG Board has not yet formed a view)
- Further discussions needed on whether additional guidance on the **allocation of goodwill to CGUs, on reorganisations and to divested businesses** should be considered

### Objective C: Improving the calculation of value-in-use

- **Support** for inclusion of **future enhancements** in the estimation of future cash flows in the calculation of value in use. However, necessary to develop **further guidance** on when to include restructuring cash flows in the calculations
- **Support** for **removal of the requirement** to use **pre-tax** inputs and pre-tax discount rate to calculate value in use

## EFRAG KEY MESSAGES ON THE IASB TENTATIVE DECISIONS

---

### Other topics

- **No support for new subtotal** of total equity before goodwill
- **Conversion with FASB decisions. Mixed views** with arguments as unlevel playing field and incentives to pay a higher price for acquired business
- To continue **recognising acquired intangible assets** separately from goodwill. To be discussed further, arguments as **costs and subjective measurement** mentioned.



# EFRAG PAST ACTIVITIES

---

## SURVEY ISSUED 2012

- **Different** views on **what goodwill** normally **consists of**
- **Different use of goodwill information.** Some of the respondents that did not use the information thought that it was too uncertain (unclear what goodwill consisted of or the calculation was considered unverifiable) or did simply not find the information useful for their projections. Other respondents used the reported goodwill or the disclosures when assessing risks, future cash flows and stewardship
- **Split views** on whether **amount or change** information is most useful
- Generally the method of **payment does not affect** how goodwill **information is used**
- Different views on the usefulness of **impairment information** (useful, but too late to be useful)
- Different views on whether **impairment** losses should be **reversed**
- Different views on whether the effect on the **macro economy** should be considered when developing accounting standards
- Amortisation can reduce **pro-cyclicality**

# EFRAG PAST ACTIVITIES

---

## EFRAG DP AND QUANTITATIVE STUDY

### EFRAG DP *Should goodwill still not be amortised* (2014)?

- DP concluded that reintroduction of **goodwill amortisation** would be **appropriate**, because it reasonably reflects the consumption of the economic resource acquired in the business combination over time and can be applied in a way that achieves an adequate level of verifiability and reliability.
- **Most respondents agreed** with the main conclusion of the DP that the impairment-only model for acquired goodwill did not provide the most appropriate solution for subsequent measurement of goodwill. These respondents agreed with the preliminary views of the DP that amortisation of goodwill should be reintroduced, **but** also pointed out that there are **areas for improvement in the impairment testing**.

### *What do we really know about goodwill and impairment?* (2016). Quantitative study

- Goodwill is a **significant** number (and varies significantly between industries);
- **Impairment losses were significantly concentrated** in a small number of companies.

# EFRAG PAST ACTIVITIES

---

## GOODWILL IMPAIRMENT TEST: CAN IT BE IMPROVED? (2017)

- The paper suggested additional guidance on the **allocation** of goodwill to **CGUs**. **Responses** were **mixed**.
- The paper proposed **additional disclosure** of information on composition of goodwill (i.e. information (in amounts) about which acquisitions the total amount of goodwill is related to). Generally **not supported** (would be difficult to prepare).
- The paper proposed to introduce a **'Step Zero'** in the impairment test (a qualitative assessment of the likelihood of an impairment loss). Generally **supported**.
- The paper suggested a **single calculation** approach: fair value less costs of disposal ('FVLCD') or Value in Use ('VIU'). Generally **not supported** as would not result in a simplification.
- The paper proposed to allow consideration of **cash flows from future restructurings** when testing for impairment. Most of the respondents **supported**.
- The paper proposed to allow the **use of a post-tax rate** when testing for impairment. Almost all respondents **supported**.
- The paper proposed to **deduct an accretion amount** from the recoverable amount of a CGU for the purpose of the impairment test. **Not supported**.

# EFRAG PAST ACTIVITIES

---

## LITERATURE REVIEW (2020)

- A **high proportion** of the cost of acquisitions are allocated to **goodwill**.
- Most companies **allocate** goodwill on the **level of** their **segment** reporting format.
- Most, but not all, studies find that goodwill **impairments** are used **opportunistically**.
- Generally, investors consider that **goodwill** is linked to **future economic benefits** (goodwill is an asset). **Older goodwill** may **not** have **information content**.
- **Goodwill charges** have **decreased** markedly after the introduction of the impairment-only approach but do generally seem to provide new information to investors.
- Recognising goodwill does **not** force **better acquisition decisions**.
- Entities located in countries with stronger **enforcement structures** are more likely to report impairment losses than entities domiciled in countries with weaker structure.
- The **value relevance** of goodwill has **increased** after the introduction of the impairment-only approach. However, often alternative to the impairment-only approach an amortisation model and a pooling-of-interest accounting model.



EFRAG receives financial support of the European Union - DG Financial Stability, Financial Services and Capital Markets Union. The content of this presentation is the sole responsibility of EFRAG and can under no circumstances be regarded as reflecting the position of the European Union.



EFRAG  
Aisbl - ivzw  
35 Square de Meeüs  
B-1000 Brussel  
Tel. +32 (0)2 207 93 00  
[www.efrag.org](http://www.efrag.org)

