CHANGES TO THE ACCOUNTING FOR BUSINESS COMBINATIONS: DISCLOSURES, GOODWILL AND IMPAIRMENT: REFLECTIONS FROM NORWAY

SUMMARY REPORT

WEBINAR – 9 NOVEMBER 2020

EFRAG
European Financial Reporting Advisory Group

Norsk RegnskapsStiftelse

NORSKE FINANSANALYTIKERES FORENING

IFRS

This report has been prepared for the convenience of European constituents by the EFRAG Secretariat and has not been subject to review or discussion by neither the EFRAG Board nor the EFRAG Technical Expert Group. It has been reviewed by the speakers at the event.
Photo on front page by Miguel Ángel Sanz on Unsplash

Background

EFRAG and the IASB, together with the Norwegian Accounting Standards Board ('NASB') and the Norwegian Society of Financial Analysts ('NFF'), organised an online joint outreach event *Changes to the Accounting for Business Combinations: Disclosures, Goodwill and Impairment: Reflections from Norway* on 9 November 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 the EFRAG preliminary position 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 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.

Contributions may have been edited for clarity and length.

Introduction

Bjørn Einar Strandberg, Chair of the NASB and partner at PwC, moderator, welcomed all participants, introduced all speakers and the subjects.

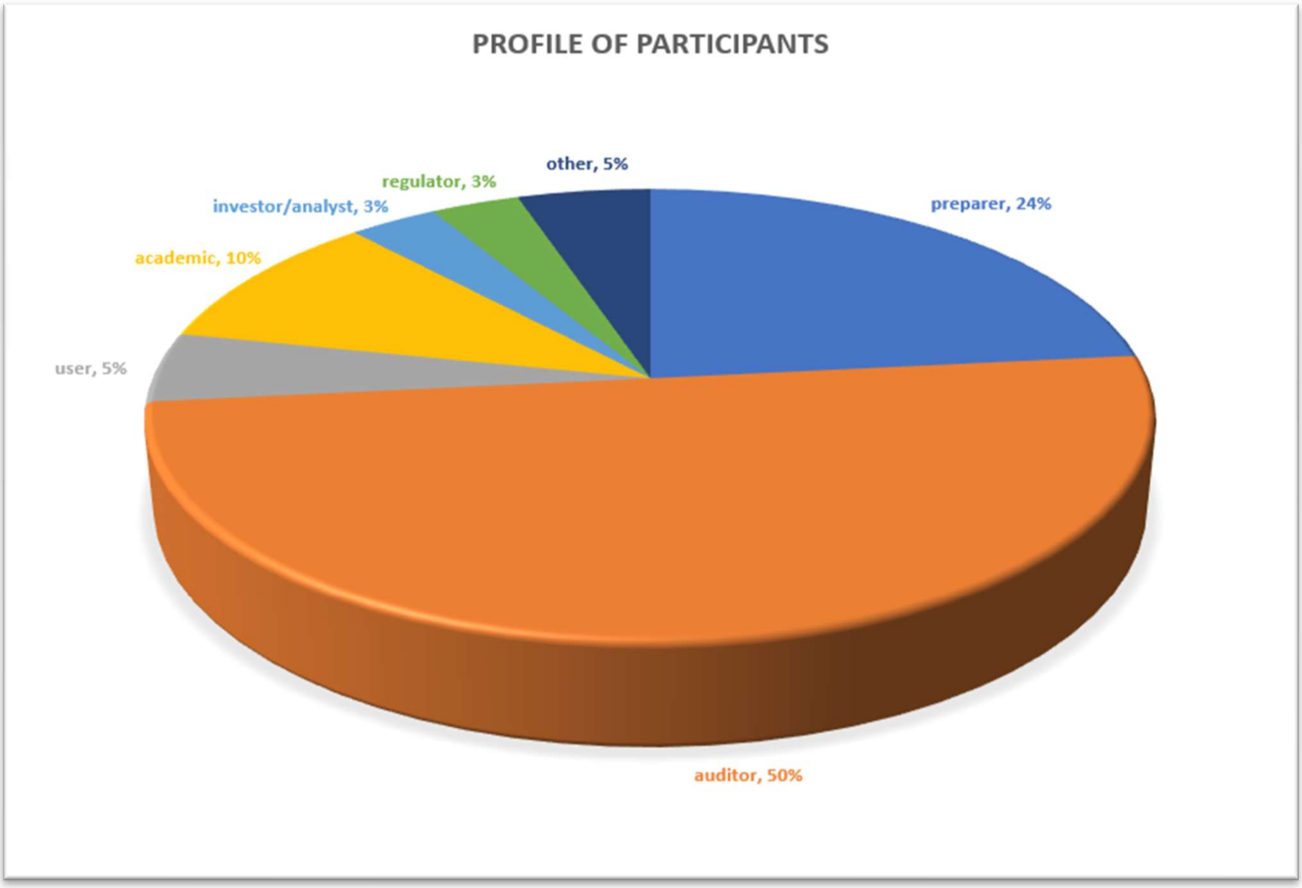
Tom Scott, IASB Board member, mentioned that any views of the IASB representatives during this outreach event are personal views and not necessarily the IASB's view. He summarised the objective, the timeline and the main areas of the DP where the IASB is seeking feedback, as well as introducing the IASB's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

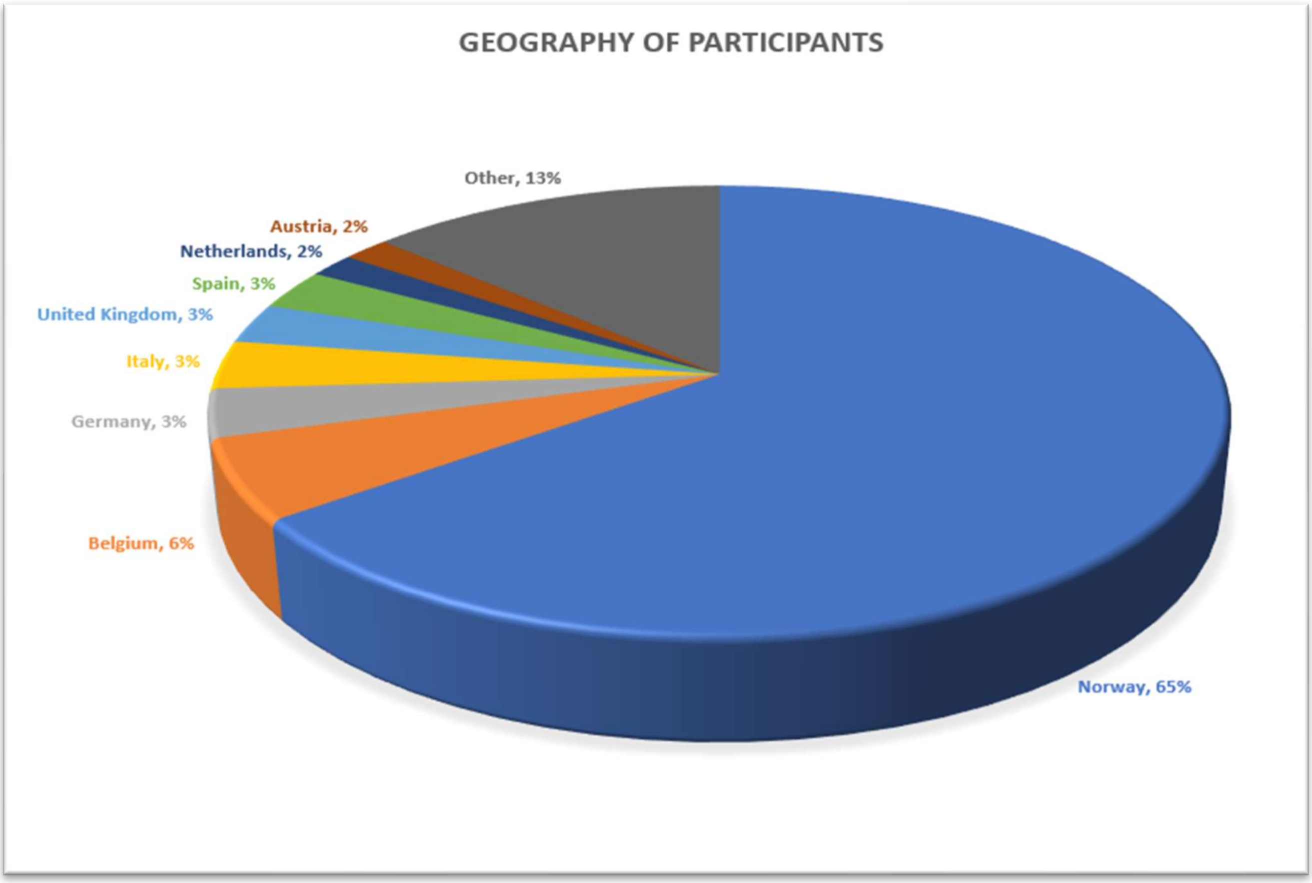
Chiara Del Prete, EFRAG TEG Chairwoman, was on behalf of EFRAG pleased to organise this event and noted that this is the second outreach event together with the NASB and NFF next to the recent event relating to the Primary Financial Statements. She summarised the preliminary views of EFRAG on the topics in the DP. The TEG Chairwoman explained that accounting for goodwill has been on EFRAG's research agenda for several years and noted that some of the proposals resulting from EFRAG research have also been considered in the DP. EFRAG has raised questions to constituents in its Draft Comment Letter to finalise the European view on 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.

Bjørn Einar Strandberg, introduced to the participants the polling surveys and the possibility to ask questions. He analysed the background of the participants and noted that participants were from various international geographies.

Erlend Kvaal, EFRAG TEG Member and Chair of the EFRAG Academic Panel, moderator, further introduced the program and the panellists.

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





Note: Not all participants at the event responded to the polling questions, the figures thus only represent the distribution of participants responding to the respective polling questions.

Presentations by speakers

1. Improving disclosures 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

Karina Vasstveit Hestås, Vice President Group Accounting Policies at Norsk Hydro ASA, noted that she understands the information needs of users relating to significant acquisitions to enable them to understand the reason for the acquisition and its performance. She expressed her concerns that the way this should be regulated as useful information is dependent on the situation and how the business is composed. There are many factors like the size, nature and industry of a business that influence and determine which information is the most useful and relevant. She had concerns that any new requirement will be specific and lead to providing information that is not necessarily relevant for each acquisition which can be costly and complex to prepare. Therefore, it is important how these requirements are formulated so the preparer has the possibility to tailor the information to its own specific circumstances.

She agreed with providing information about the strategic rationale and explained that this information is usually provided as market communication when the acquisition is published to the market and not necessarily included in the financial statements which can be published months later than the acquisition date. Disclosing the strategic rationale in the financial statements would be a change in practice but it would be feasible.

The disclosure of targets and expectations will be different depending on the type of acquisitions, how you expect to subsequently manage the acquired business and how integrated the acquired business will be. She also explained that it is difficult to exactly capture which measures will be used to monitor such targets and expectations. Certain aspects will be important and monitored, but until there is full access to the acquired business to understand how information is captured the exact measures will not be known. Therefore, measures to monitor the subsequent performance of an acquisition will change over time. She noted that it is easier to provide information at the acquisition compared to providing information after the acquisition. She also noted that is easier to provide information on an acquisition which is a standalone business which continues as a separate segment or geographical operation for which a separate set of information will be available. It becomes more difficult when the acquired business is integrated in existing segments where the monitoring will be more on the combined business instead of the target acquired as such. In that case, the information used for monitoring will not be focussed on the target acquired only but involve elements of the combined business. She also stated that macro-economic developments or other significant events, for example COVID-19, will result in different measures compared to the expected measures of a few years ago. She mentioned that the period of monitoring will depend on the complexity and developments of the business and after a while the monitoring will be based on the combined business without distinguishing between acquired businesses and organically grown businesses.

She agreed with the proposed disclosure requirement to disclose the measures that management uses to monitor the subsequent performance of an acquisition for two years. In her experience, acquisitions are integrated within a few years and are not being monitored as such, however if an acquisition would continue to operate as a standalone segment the monitoring and disclosure of it could be for a longer period. She summarised that in her view the new requirements should be more based on the disclosure objective instead of requiring specific disclosures relating to specific measures since it would be more burdensome for preparers to disclose specific information which is less relevant to them. Finally, she noted that the right trade-off between the preparers' and users' views should be aimed for.

Teodor Sveen-Nilsen, Financial analyst at SpareBank1 Markets, stated in relation to the strategic rationale of an acquisition it would be always useful to understand the view of the management. Nevertheless, he questioned whether the proposed disclosure requirement is really useful information for users, as it is often already part of the announcement of the acquisition and he questioned whether it should be part of the financial statements. He noted that many investors and users have their own view whether an acquisition is a good decision or not. In his view, the accuracy and reliability of the information on the strategic rationale will be low when included in the financial statements as management will disclose just to fulfil the requirements and the investment environment can change. He noted that he has the same comments and arguments on the requirement to disclose the objectives of an acquisition. This information is also already published when announcing an acquisition and the accuracy and reliability of the information on the objectives of an acquisition will be low when included in the financial statements. He continued that disclosing the metrics for monitoring performance is very important as it allows outsiders to monitor the subsequent performance of acquisitions and the decisions of the management. He explained that providing information around acquisitions may increase confidence around management's value creating skills. This will have a direct impact on the valuation multiples and the markets' required return on the companies' equity. He also explained that disclosing metrics to monitor subsequent performance may also lead to better decisions by management. Management will put more effort in taking better decisions and take the right risk since investors will be able to assess the performance of the acquisition directly by these metrics. He pointed out to a recent news article about Equinor and its losses in the US and explained that these losses would be cut-off earlier if the US operations were presented in a separate segment. He noted that users need information on the acquisition price (and potential earn-out or contingent consideration), capital expenditures/investments made after the acquisition and measures of the profitability (profit or loss or cash flow measure) to enable themselves to analyse the subsequent performance of an acquisition. This information is preferably disclosed in a consistent format over time. Finally, he mentioned that he has no strong view on the period the measures should be disclosed. He acknowledged that often acquired businesses are integrated and, in that case, a two year period seems appropriate. He noted that if the acquired business is an important part of the business the period could be longer.

Erlend Kvaal, requested the IASB and EFRAG to respond on the points made by Karina Vasstveit Hestås relating to the need for more flexibility in the requirement to disclose specific metrics as the relevancy of the metrics will depend on the specific circumstances of the acquisition. He also requested the IASB and EFRAG to respond on Teodor Sveen-Nilsen's view that more emphasis should be put on the metrics instead of the strategic rationale and objectives. Furthermore, he challenged Karina Vasstveit Hestås and Teodor Sveen-Nilsen to react on the commercial sensitivity of the proposed disclosures and the location of the disclosures.

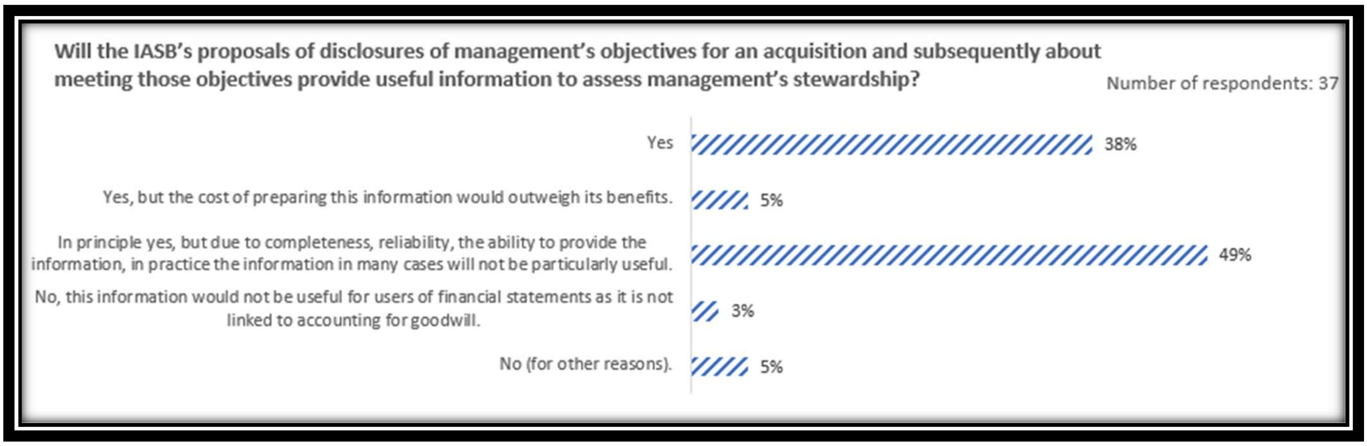
Tim Craig, confirmed that the IASB has adopted a management approach because it would not be possible to prescribe specific measures that would work for all acquisitions. Therefore, the aim of the management approach is that it would allow companies to use metrics that they consider as being the most relevant for their acquisition and disclose those metrics that are used by the management to monitor the acquisition. He noted that it would not be viewed as flexibility but requires the disclosure of metrics that are used by the management which might also give interesting information to investors on how the business is managed. He commented that Teodor said he was already getting the information on the strategic rationale and objectives for an acquisition in the announcements to the market at the time of the acquisition and maybe that was the reason for Teodor's comment. He explained that the strategic rationale disclosure is trying to link the acquisition to the group's strategy that may be provided elsewhere in the annual report. He pointed out that the objectives are very important since the metrics are used to monitor the subsequent performance of an acquisition against those objectives. He explained that the objectives also inform the users about what management intends to do with the acquisition and what it will add to the business. There is an important link between the objectives and the metrics.

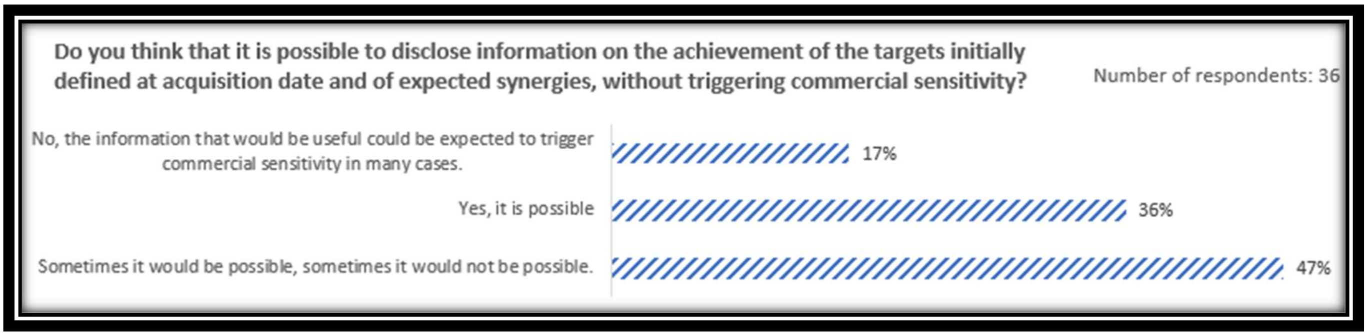
Chiara Del Prete, noted that EFRAG agrees with including the strategic rationale in the disclosures and supports the IASB's management approach which allows companies to determine which metrics are the most relevant and disclose those that are used for monitoring the acquisition. In addition, she noted that based on preliminary discussions with users it seems that some users find the level of the Chief Operating Decision Maker (CODM) too high in determining the information to be disclosed. She noted that these users are sceptical about the robustness of disclosures at that level and suggest the IASB to reconsider a lower level. The EFRAG Chairwoman acknowledged the importance of the commercial sensitivity for the preparers and mentioned that it is assessed together with the preparers. She noted that a good balance has to be found between the users' needs and preparers issues with commercial sensitiveness. She pointed out that some preparers expressed their concerns on too much and too early information which can be a risk for the realisation of sensitive synergies for example cost cuttings coming from agreements with trade unions for redundancy. She noted that the EFRAG project team is carefully assessing this aspect.

Karina Vasstveit Hestås, noted that the level of CODM is a sensible level to determine the information for the required disclosures since it will capture all quantitatively and qualitatively material acquisitions without disclosing information on non-material acquisitions which can be added on a voluntary basis. She explained that requiring information on a lower level will be very demanding for companies with an active mergers and acquisitions business. She agreed with the management approach which allows companies to determine the relevant metrics to disclose based on the metrics used by management to monitor instead of a prescribed list of metrics. She reconfirmed that the period of disclosing the metrics would be depending on how fast the acquired business is integrated and how it is integrated. She explained that often it is possible to disclose relevant information without disclosing too specific commercially sensitive aspects that could harm the business. She confirmed that especially when specific information needs to be disclosed this can be challenging, for example specific information on price expectations, how the synergies are going to be achieved and which cost-cuttings are expected. On the sensitivity of information relating to redundancy, she explained that although it is sensitive information it is not necessarily commercially sensitive. She added that timing is also important as disclosing information on redundancy after the reorganisation has been announced is less sensitive compared to disclosing it at acquisition date when the reorganisation is not communicated yet. She noted that finding the right balance of information to be provided and the sensitivity is important and mentioned that having clear objectives is more important than specific disclosure requirements. She agreed with the direction of the current DP but is also interested in how this requirement will be worded in the actual standard which will determine whether the requirements are too specific or not.

Teodor Sveen-Nilsen, reconfirmed his view that it is good to have insight in managements rationale but the required disclosure on the rationale is expected to be less specific, less reliable and therefore less useful for users. He also does not expect that providing more information on the strategic rationale will be used by the market as companies will try to over-deliver. He explained that due to the commercial sensitivity the risk is that companies will provide only general information by disclosing a lot of nonuseful information which will make it more difficult for users to find important information in the financial statements.

Morten Haukaas, Vice President Accounting and Chief Accountant at Equinor, moderator, presented the polling question results.





Tim Craig, acknowledged that commercial sensitivity is an important issue. He explained that investors comment that at the time of announcement of an acquisition there are press releases and presentations that have a lot of information relating to the strategic rationale, objectives and targets. He added that investors are looking for a follow-up on those objectives and targets and therefore do not think the information will be commercially sensitive as the companies were already willing to provide that information. He noted that maybe the information investors want does not need to be very specific, detailed and granular which might be when the information becomes more commercially sensitive. He explained that therefore the IASB is looking for stakeholders' feedback specifically explaining in detail what information they find commercially sensitive and why they consider it to be commercially sensitive.

Rasmus Sommer, acknowledged that some information can be commercially sensitive and some is not, therefore a right balance needs to be find. He noted that the question is whether it is useful to disclose part of the objectives and monitor the acquisition based on those objectives or is additional information necessary. He gave an example, obtained during outreach events, where a certain number of expected turnovers is set as an objective for an acquisition and subsequently the acquisition is monitored based on that objective. If the information relating to the turnover is not considered commercially sensitive but the cost that the entity will need to incur to obtain the turnover is considered commercially sensitive, then the turnover would be disclosed but the cost to obtain the turnover would not be disclosed. He stated that users questioned whether disclosing only the objective relating to the turnover would be useful for users without disclosing the performance relating to the cost of obtaining the turnover.

2. Improvements to the goodwill impairment test

Presentation

Tim Craig, presented the IASB's preliminary views and explained that the IASB 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 views on these topics are that it is not feasible to develop an alternative impairment test for goodwill that is significantly more effective at a reasonable cost, to propose removing 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, and to propose some simplifications to how value-in-use is estimated.

Kathrin Schoene, indicated, in relation to improvements to the goodwill impairment test, that although EFRAG shared the IASB's reservations on developing a more effective impairment test, EFRAG considered that there was room for improvement particularly in the allocation and reallocation of goodwill. In addition, to overcome management's over-optimism, she outlined several proposed new disclosures as suggested by EFRAG. She also expressed EFRAG's reservations about the removal of the requirement to perform an annual goodwill impairment test. Finally, she indicated the initial positive reaction of EFRAG to the simplifications of cash flows and addressed topics on which EFRAG seeks constituents' inputs.

Discussion

Karina Vasstveit Hestås, pointed out that her comment comes from a company that has limited amount of goodwill on its balance sheet and that much of this is technical goodwill. It is challenging to figure out how to do with goodwill since the starting point is that it is an unallocated residual consisting of several things; wasting and long-lived elements. One of the things that always comes up in Norway when talking about goodwill is the impact of how taxes are measured on acquisitions as deferred taxes are significant in those industries that have high tax rates such as the oil and gas industry or the hydroelectrical power industry. These elements can be identified but there are others that do not qualify for separate recognition and goes into goodwill. Encouraging intangible assets to be recognised as part of goodwill is not a good idea and she supports the IASB in that conclusion. Another concern is that there is currently only a way to modify goodwill on the balance sheet and that is through impairments. Starting from this labelling, this is perceived as a failure, even though if it had been said, at the acquisition date, that goodwill would not last forever (as benefits will be achieved and realised) and that at certain point it would be removed from the balance sheet through impairment. This is hard to communicate both internally and externally that this effect is consequence of the current regulation.

In relation to the impairment test, she claimed that the focus should be on the value of the CGU and the CGU may or may not contain goodwill and may or may not support goodwill at a combined level but challenges are there with and without goodwill. The cost of the annual impairment test is not insignificant, and an indication-only approach is not much less robust and would definitely reduce the cost, so it would be welcomed. As for the other improvement proposals, the inclusion of the effects of improvements or enhancements, would remove the differences between business planning and business logic, and would, therefore, also support it. However, the cash flows coming from restructurings need to be sufficiently mature to be supportable and have good documentation, as any other assumption included in the impairment test. On the tax side, she noted that she was a bit more concerned because the complexity will be there regardless of whether cash flows and discount rates are pre-tax or post-tax (due to the use of nominal values instead of fair values) and that the discussion should be left for when IAS 12 is opened for discussion.

Teodor Sveen-Nilsen, partially agreed with the IASB, though he indicated that he sees substantial variations among companies, some of them recording impairments mainly in the fourth quarter, while others apparently have a more active view on their book value throughout the calendar year. From the user's perspective, it is better if companies have a more active view of their book value throughout the calendar year. Concerning the discussion on amortisation versus impairment-only approach although there is no strong view, he supports the idea that goodwill should be amortised. A few reasons for this, from the user's perspective, are firstly that valuation multiples of companies would be more comparable (currently a company with strong M&A activities and an identical company focusing on organic growth; have a different earnings per share but should not have a different valuation), secondly, that currently the only way to remove goodwill from the balance sheet is through impairments, this is a perception of failure and he does not believe that this is a good way to remove goodwill, so there should be another way, and thirdly, that amortisation would reduce the probability of inflating book values. He also highlighted the issue around technical goodwill impairment, which is confusing to some investors. In relation to the simplification of the impairment test, he slightly disagreed with the IASB's view on trigger-only based test, since when discussing the trigger event, it is difficult to define what a trigger event is. If you had a business that reduced its sales prices by 5% per year, would that be a trigger event or when it would be a trigger event? It would be difficult to define trigger events if a simplification of impairment testing is introduced.

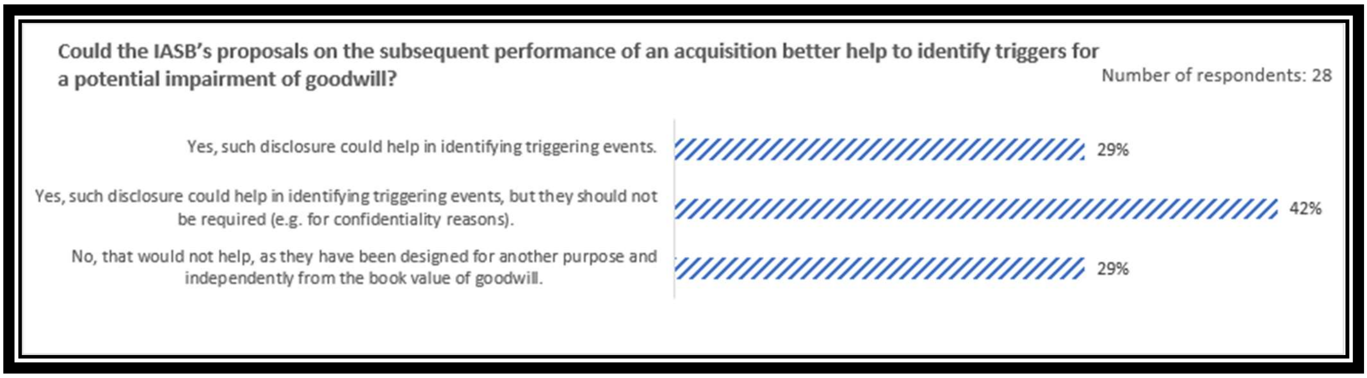
Erlend Kvaal, asked for the panellists' views on the correct level of allocation of goodwill, whether at the segment level or otherwise, and how we should fight management's over-optimism, what the role of auditors and regulators is in this regard, and whether it is feasible and useful to disclose more cash flow assumptions.

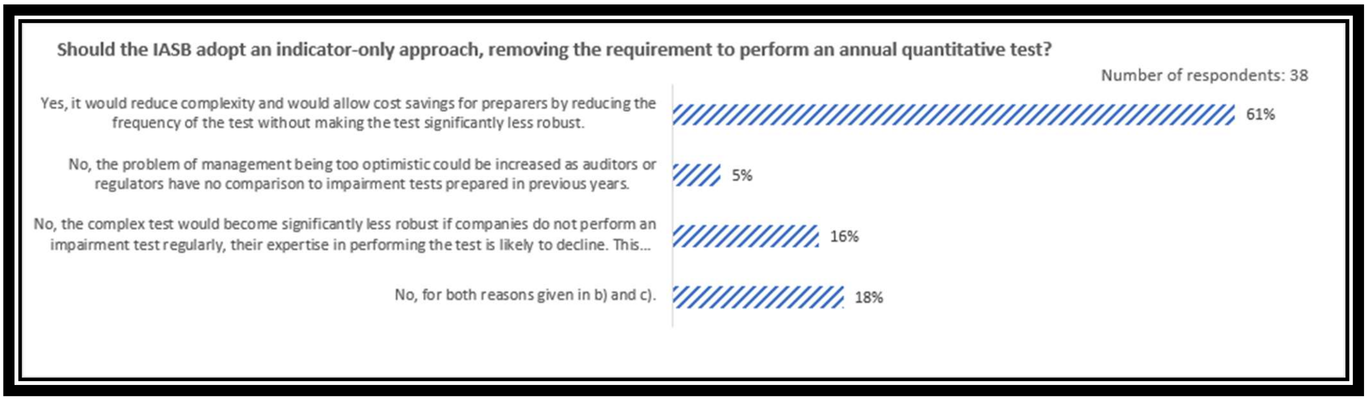
Tim Craig, indicated in relation to the level of CGU and guidance on goodwill allocation and the level at which it is tested, that although the IASB did not find a way to significantly improve the impairment test at a reasonable cost, the IASB is open to suggestions to improve impairment tests. With respect to the allocation of goodwill, the question is which particular aspect of IAS 36 is difficult to apply and how would guidance help. Stakeholders' views on this would be useful. In terms of over-optimism and comparing actual versus forecast cash flows, this is a potential suggestion and it is a good idea, but the question stakeholders would need to think about is how long you should monitor that and the balance between the cost of doing so and the benefits that are obtained. One would need to do it for a reasonable period to have a good idea of the forecasting accuracy, but there is a cost to that. Also, the longer that it is done might affect relevance (i.e. there might be changes over a five year period for example, such as a management change or new processes that has been put in place in the period and the relevance of the information might be impaired). It would be useful to have some thoughts about how this would work in practice.

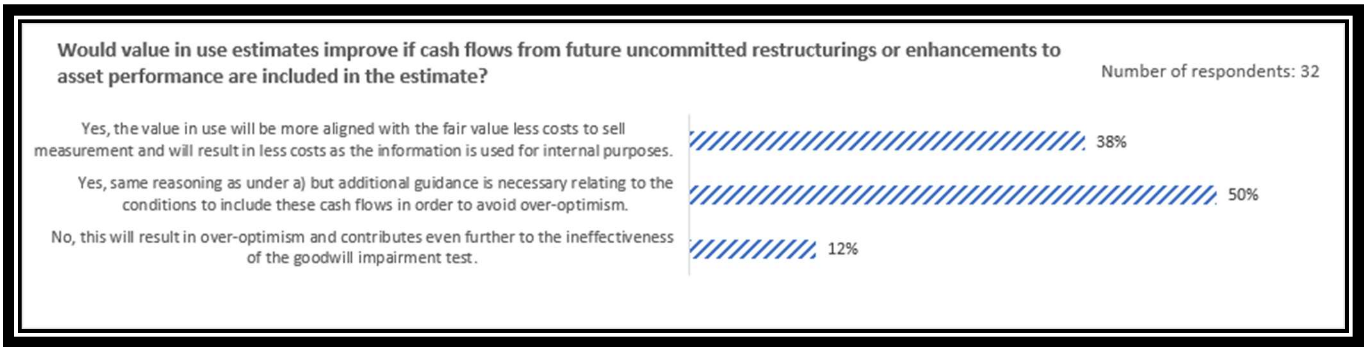
Chiara Del Prete, indicated that Kathrin Schoene had already illustrated the thoughts EFRAG had in its Draft Comment Letter and that they are very interested in understanding the direction of possible review of the allocation guidance or disclosures to mitigate over-optimism and how they are received by constituents before having a final view. From the outreach performed so far, it seems that these are welcome by many, also the idea of increasing transparency around assumptions to mitigate it. EFRAG is more in the listening mode of these proposals.

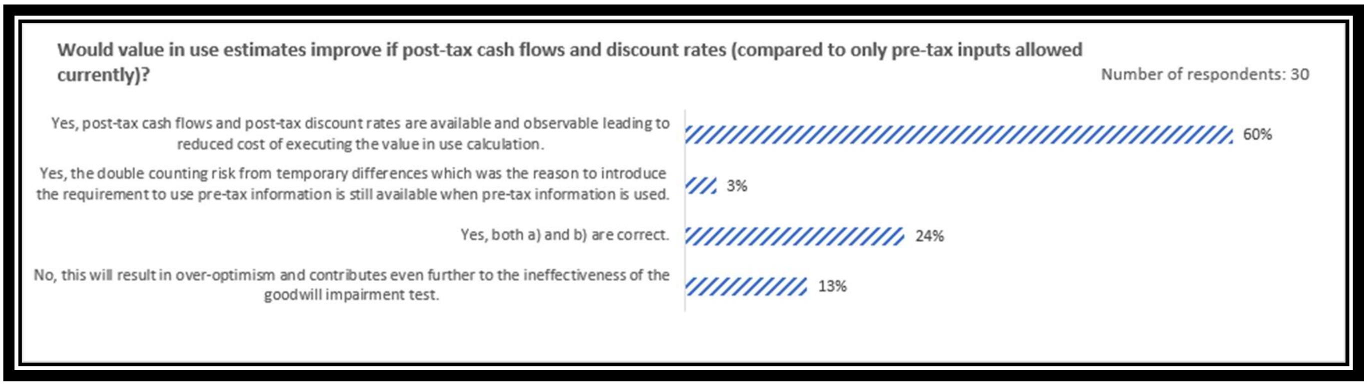
Karina Vasstveit Hestås, made some comments on the level of the CGUs and management overoptimism. An important difference is whether you have goodwill allocated to a CGU or a group of CGUs. In the first case, if you have an impairment, you would first write down the goodwill, but in the second case, you would have to impair some other assets before having an impairment on goodwill. It is quite different how the mechanics works in many practice situations, so it is an interesting difference whether you have goodwill allocated to a CGU and can somehow get rid of it, if you want, or if you have it in a group of CGUs it is much harder to get rid of that goodwill if you have some challenges in that group of CGUs but not so much to have an impairment, therefore this is one of the issues that the IASB should look into. In relation to the issue of over-optimism it is difficult to deal with through standard-settings or disclosures. It is an application issue, and it is important to treat it as such. All the assumptions considered in the impairment test are supposed to be reasonable, rational and supportable and goodwill test has no differences with other impairment tests. She does not believe that adding more disclosures would solve this issue but would add a burden on companies in finding good ways to convey the complexities of those often internally dependant assumptions. She questioned, how one can do it without increasing the length and burying the core of the information in a very long and complex disclosure. This is challenging but she does not think that disclosures are the answer to the overoptimism issue.

Morten Haukaas, presented the polling question results.









Audience question: Why not investigate improvement to the amortization route further?

Tim Craig, indicated that we would cover that in the following section.

3. Goodwill: its nature and componentisation

Presentation

Tim Craig, listed the arguments for amortisation and for the impairment-only approach, as put forward by stakeholders. He clarified that, when discussing the reintroduction of amortisation, it would still be with an impairment test. 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 (or perhaps reasons why previous arguments are now more relevant) that would help the IASB move forward on this topic. He finally presented other approaches considered by the IASB, such as the immediate write-off of goodwill and its componentisation, including the reasons why these approaches were not pursued.

Kathrin Schöne, introduced the EFRAG's view that the DP could have included a more comprehensive discussion on the unit of account when accounting for goodwill, including whether the amortisation could be performed on components of goodwill considered as wasting in nature. She 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, views are split even between stakeholders from the same jurisdiction. She then stated that, while it seems to be difficult to reach a conclusion based on a conceptual basis, some argued that the reintroduction of amortisation would be a practical solution. Therefore, EFRAG is seeking views from its constituents and has raised questions to its constituents in the Draft Comment Letter.

Discussion

Karina Vasstveit Hestås, introduced that she finds this part of the discussion really challenging. In her view, goodwill contains many things. The business value is the core component of it but not necessarily the higher portion of its value. Other elements compose goodwill: for example, the assembled workforce. She considered that this component could be reliably estimated and have in some cases more attribute of a controlled asset compared to uncontracted customer relationships, that are instead separately recognised. She also shared some valuation issues. For example, the consideration to be paid for an acquisition is agreed at one point in time while the acquisition process may take an additional amount of time to complete (i.e. for negotiating other technical aspects). In such circumstances, for example when the transaction is settled by shares, it directly influences the recognised consideration for the acquisition. It can also be the case when an acquisition is subject to a regulatory approval process, and many things can happen to the share consideration and other valuation aspect in the transaction until the entity actually recognises all the amounts in the balance sheet at the completion date. What is originally negotiated and agreed upon by the entity is not necessarily what is finally accounted in the financial statements. She then argued that accounting for goodwill is a complex process. While she would conceptually support the separate recognition of any separately identifiable component of goodwill, she considered that it would probably lead to additional complexities and significant efforts on preparers.

Regarding the reintroduction of amortisation, she commented that it would not have conceptual basis and would be mainly consist of a practical solution. It would also bring additional complexities when determining the useful life of the goodwill. On the other hand, she considered that the link between goodwill and the current business of an entity is sometimes weak. As time passes, the entity's business changes, and the goodwill has no longer an informative value for investors. She then commented that challenges are associated with both alternatives, but she generally struggles with the consequence of having an impairment loss as the only way to reduce the amount of goodwill from the balance sheet, as generally perceived as a failure by the market. She finally agreed with the IASB's position not to consider the immediate write-off of the goodwill, as it should be recognised based on the fact that the entity paid for it in the expectation of future benefits.

Teodor Sveen-Nilsen, reported his sympathy for the reintroduction of amortisation. However, he recognised that it would be complex to determine the useful life of the goodwill. He also commented about whether users, in his opinion, would add back goodwill amortisation expenses when calculating performance measures. As a stock analyst, he stated that he did not believe he would do so and, as such, doubted that investor would do so either. He then considered that the amortisation expenses would be then part of the recurring EPS. Finally, he expressed the view that providing information about the age of goodwill could be theoretically useful. However, he was uncertain about how he would use this information. He also considered that the age of goodwill is generally having a poor weight into the model investors use to value a company.

Erlend Kvaal, summarised few key concepts included in the presentations discussed in the session and asked for any additional comment from other participants. In particular, he focused on the comments about: (i) the limited usefulness and feasibility of the information about the age of goodwill; (ii) componentisation of goodwill considered as complex and impracticable by the IASB (as also agreed by the panellist); (iii) whether specific rules are needed for technical goodwill, even if the underlying balance would disappear as soon as the entity settle its tax positions; and (iv) the usefulness of having the possibility to distinguish failures from consumption when assessing an impairment loss recognised by an entity.

Tim Craig, expressed the IASB's interest in hearing what stakeholders think about the usefulness and feasibility of providing information about the age of goodwill. He also reacted to the comments on goodwill componentisation by recalling Karina's comment about the miscellaneous and uncertain nature of goodwill, and questioned whether it would therefore be possible to reliably break down goodwill into different components and measure these. He expressed his interest in hearing stakeholders' views on the feasibility of such an approach. The IASB thought it would be subjective and complex and it would not be possible to reliably measure the components because goodwill is a residual. Regarding technical goodwill he again thought it would be interesting to hear what stakeholders thought on this and asked stakeholders to consider how they would define this notion and how it would be applied in practice. He finally commented on the negative connotation of an impairment loss being recognised. He understood that if an impairment loss was recognised simply because the benefits originally included in goodwill have been realised and converted into cash that's not a negative event. However, in these circumstances a company would be able to disclose the reasons for the impairment and explain why that has happened. He concluded by mentioning that in this debate there is often a similar opposing argument that can be put forward since some would say reintroducing amortisation of goodwill would make it hard for investors to distinguish good acquisitions from bad acquisitions and amortisation may mask some impairments that are negative events.

Kathrin Schöne, shared the interest about the discussion about what the meaning of a goodwill impairment is. She considered that it goes together with the discussion about the distinction on such goodwill components that are wasting in nature and those that are not. In this context, she stated that the recognition of an impairment loss on a wasting goodwill's component would in some situations not lead to the conclusion that it is due to the failure of an acquisition.

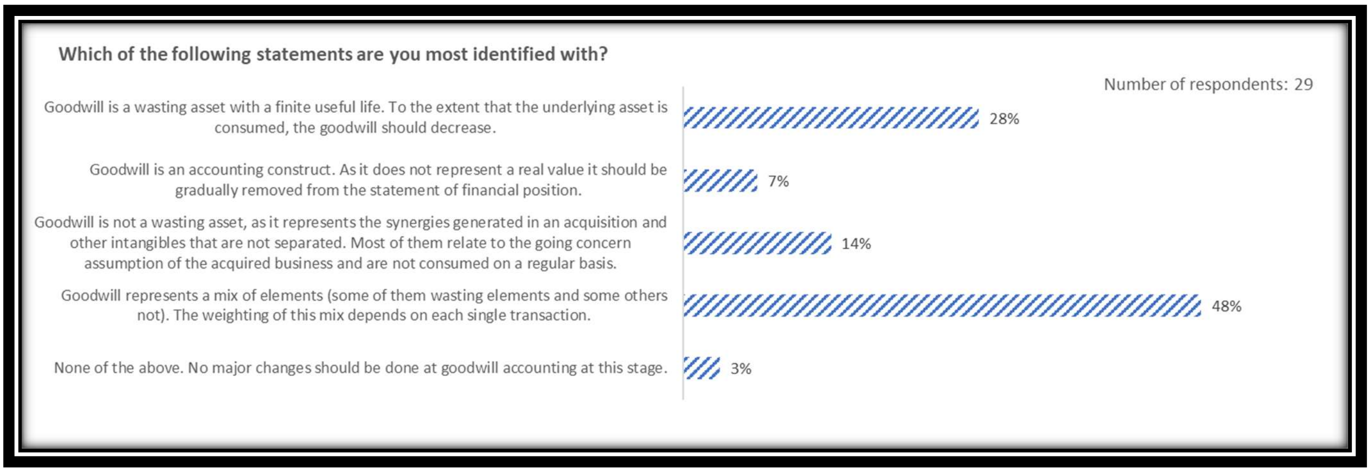
Karina Vasstveit Hestås, added about the componentisation of goodwill reaffirming that it would be really complex when asking entities to split goodwill into several components and treat them differently. She added that an area where it would be possible without a significant level of subjectivity are taxes. Furthermore, she argued about the lack of existing models that could help in breaking-down goodwill components.

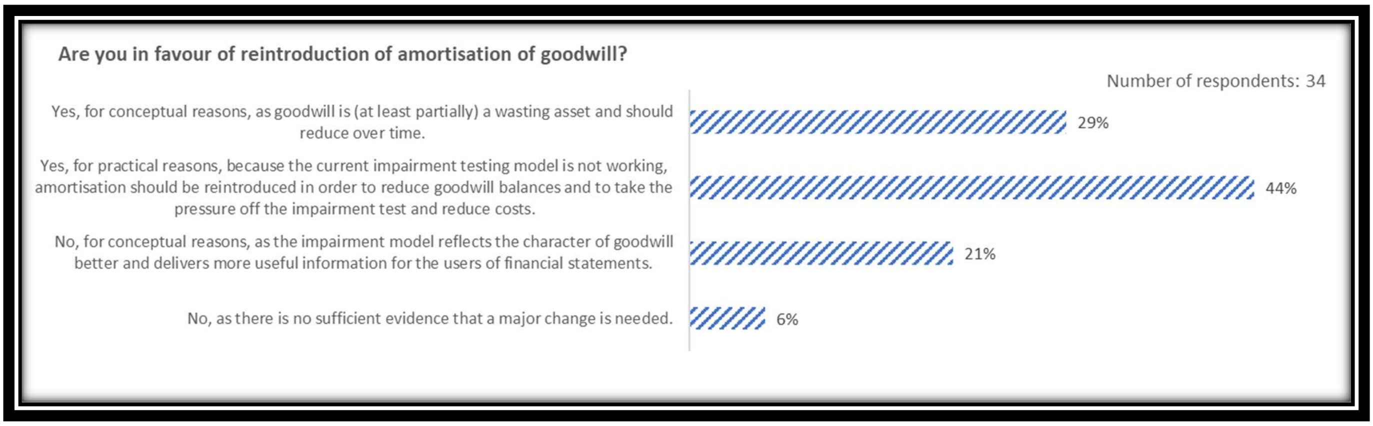
Teodor Sveen-Nilsen, agreed with Karina's comment on complexity of goodwill's componentisation except for the technical goodwill component. He considered useful to have specific rules for technical goodwill, that is definitively a recurring cost and should be part of the depreciation and/or amortisation.

Audience question: *Why not allowing impairment only for those committing to a meaningful impairment review for a considerable time in future and if not, having amortisation?*

Audience question: *Isn't the elephant in the room that management (often with a short-term perspective), as long as the subsequent treatment of goodwill is different from identified intangible assets, will have significant incentives not to identify other intangible assets and have most of the excess value end up in goodwill?*

Tim Craig, replied to the first audience question that the IASB is generally not in favour of providing options for accounting treatments and someone would be selecting an accounting treatment based on their judgement here, and it could impair comparability of financial statements across the market. On the second question, he considered it more an application issue. He added that some stakeholders supporting the reintroduction of amortisation comment that reintroduction of amortisation might relax the tension in separately identifying intangible assets with finite lives.





Chiara Del Prete, commented on Polling Question 10 highlighting that it was interesting to note that around 70% of the participants would support the reintroduction of amortisation. However, she acknowledged the relevance of practicality considerations in such preference. She also added about management's incentive not to identify additional intangibles saying that she was unsure there are currently enough evidence to state that. However, she recognised that the current accounting for intangibles is sometimes questioned by users, and then the approach of the separate identification of intangible assets seems to at least deserve some more thoughts. She also highlighted that the EFRAG Draft Comment Letter emphasise the importance of discussing the comparison between internally generated and externally acquired intangibles, not in this step of the process but rather in a separate project.

Tim Craig, commented on Polling Question 10 and the reintroduction of amortisation, highlighting that the IASB was considering whether there was new compelling evidence that a change is needed and, if so, if that change would result in a significant improvement to financial reporting. The IASB would like stakeholders who would suggest the reintroduction of amortisation to explain, if it is not possible to reliably estimate the useful life of goodwill and therefore any amortisation period and charge would be arbitrary, whether an arbitrary reduction in the goodwill balance would be a significant improvement to the model we have today. He also noted that some stakeholders commented that companies would add-back the amortisation charge in their reporting measures to the market, as it does not necessarily reflect the economics of their business and a lot of investors say they wouldn't find an amortisation charge useful and therefore they would ignore it. Hence, he asked stakeholders who would favour the reintroduction of amortisation to consider these issues in providing feedback to the IASB.

Closing of the event

Bjorn Einar Strandberg thanked all the presenters and the panellist for having greatly contributed to the session. He summarised some of the feedback received. In relation to the proposed disclosure requirements he noted that analysts are eager to get metrics and information about the objectives and found Teodor's comments fair. He understood that they are also interested in measuring management's skills, and he found it to be aligned with the overall IASB's objectives. He also recognised that EFRAG has still open views especially on topics in paragraphs 2 and 3 above. He affirmed that the NASB is welcoming comments from its constituents in order to finalise the comment letter.

He recognised that it is difficult to set a conceptual rationale and logical rules to find the best approach for goodwill accounting treatment, and that there will be a kind of compromise whatever solution will be chosen. He found the discussion about the age of goodwill very interesting. He considered it interesting to hear the comment that the recognition of an impairment loss could sometimes have a positive meaning for an entity, underlying the fact that the benefits originally included into goodwill have been realised and then converted into cash. He finally expressed this interest for the comprehensive discussion had on componentisation, compared to the leaner reference made to it in the IASB's discussion paper. He also reminded the importance of a fair allocation. Technical goodwill, when performing an impairment test, should never be lifted higher than the CGU it belongs to, as it also could be typically measured quite precisely and at a very lower level where the tax is actually paid. He concluded thanking EFRAG and the IASB for supporting with the preparation of the event and the panellist for their contribution to the discussion.