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## **Business Combinations – Disclosures, Goodwill and Impairment Project update**

### **Objective**

- 1 The objective of the session is:
  - (a) to provide EFRAG TEG members with an update on the IASB's discussions and tentative decisions taken so far based on the feedback received on the Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment* ('the DP').
  - (b) to inform EFRAG TEG members on the status of the FASB project *Identifiable Intangible Assets and Subsequent Accounting for Goodwill* and tentative decisions taken by the FASB based on the feedback received on the FASB Invitation to Comment published in July 2019.

### **Background of the IASB project**

- 2 The IASB started this project as a response to the concerns identified during the IASB's post-implementation review of IFRS 3 *Business Combinations* related to the timeliness and effectiveness of the current annual impairment test.
- 3 In March 2020, the IASB published the DP including the IASB's preliminary views on how to address stakeholders' concerns. The DP included suggestions on improving the disclosures about business combinations by adding the information about its subsequent performance and objectives; including information about synergies; improving the accounting for goodwill by assessing whether the amortisation should be reintroduced and some other targeted improvements/simplifications to the current impairment test including the suggestion to only require a quantitative impairment test of CGUs including goodwill to be performed when there would be an indication of an impairment.
- 4 The IASB comment period ended in December 2020. In June 2021, the IASB discussed the feedback received in relation to objective and scope of the project. Also in June 2021, the Accounting Standards Advisory Forum (ASAF) were asked to advise on the considerations that the IASB should consider in its redeliberation process and the importance of convergence on this topic with US GAAP.
- 5 In July 2021 the IASB redeliberated (without taking into decisions) its preliminary views on the subsequent accounting for goodwill, and whether to reintroduce amortisation of goodwill. The July meeting was a joint meeting with the FASB where the two boards discussed the feedback received on their respective projects, as well as tentative decisions. In September 2021, the updated IASB project plan was discussed.

## **Background of the EFRAG discussions**

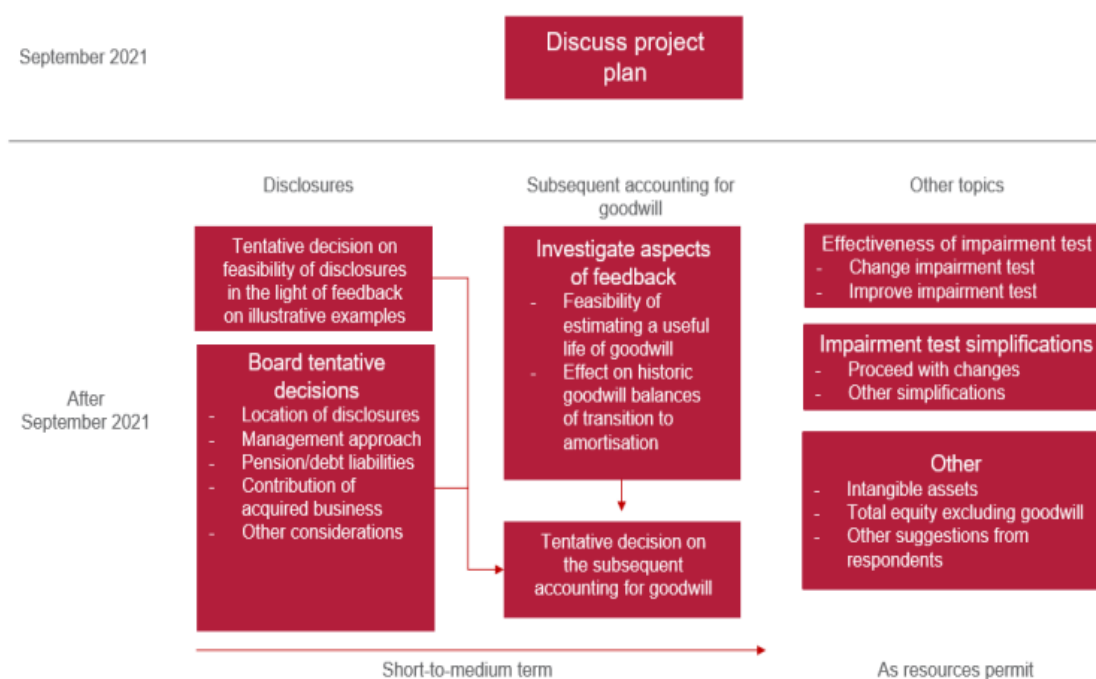
- 6 EFRAG published its [final comment letter](#) in January 2021. EFRAG TEG-CFSS discussed the feedback received by the IASB on its DP in its June 2021 meeting and provided views on the convergence with US GAAP.

## **Key discussion points for the session**

### *IASB tentative decisions taken up to date and project plan*

- 7 In June 2021, the IASB discussed the feedback received on the objective and scope of the project to explore whether an entity can, at a reasonable cost, provide users of financial statements with more useful information about the business combinations those entities make.
- 8 Most of respondents agreed with the objective and scope of the project. However, many respondents said that they did not view the IASB's preliminary views as a package with a unifying objective. Many of those respondents suggested considering disclosures separately from the subsequent accounting for goodwill. Based on the feedback received, the IASB decided not to make changes to the original objective and scope of the project. See the [IASB staff paper 18A](#) for more details.
- 9 In July 2021, the IASB redeliberated its preliminary views on the subsequent accounting for goodwill focusing on:
- (a) location of the information resulting from, and practical challenges related to the IASB proposals on improving disclosures. See the [IASB staff paper 18A](#);
  - (b) improving the effectiveness of the impairment test. See the [IASB staff paper 18B](#) and [18C](#); and
  - (c) the subsequent accounting for goodwill, including whether to reintroduce amortisation. See the [IASB staff paper 18D](#).
- 10 The IASB did not take any decisions during its July meeting but suggested to consider the question about subsequent accounting for goodwill as part of a broader package that aims to meet overall project's objective and asked the IASB staff to conduct further research regarding the feasibility of estimating a useful life for goodwill and the effects of moving to a goodwill amortisation model. As a result, at the September 2021 IASB meeting the IASB staff presented an updated project plan and the IASB members decided to prioritise performing further work:
- (a) to make tentative decisions on the package of disclosure requirements about business combinations described in the DP; and
  - (b) to analyse specific aspects of the feedback on the subsequent accounting for goodwill, in particular:
    - (i) the feasibility of estimating a useful life of goodwill; and
    - (ii) the effect on historic goodwill balances of transitioning to an amortisation model.
- 11 To address the disclosure requirements, the IASB staff proposed to develop illustrative examples to better explain what information should be provided by entities when applying the IASB's preliminary views in the DP and to test these examples with users, preparers, auditors and regulators.
- 12 The outcome of the work on illustrative examples will help the IASB decide whether it is feasible to continue with its preliminary views regarding disclosures about the subsequent performance of business combinations and quantitative information about expected synergies. Input from the illustrative examples will also identify any potential changes to the disclosure requirements.

- 13 To address the estimation of a useful life of goodwill, the IASB staff would analyse if the respondents' suggestions, such as a business combination's expected payback period, synergies or other benefits could be used.
- 14 In particular, the IASB will focus on the costs in assessing (and reassessing) the useful life of goodwill on a transaction-by-transaction basis, the usefulness of such information, and the merits of the estimation bases suggested by respondents.
- 15 To address transition issues, the IASB plans to analyse potential transition methods and the potential effect of those methods by:
  - (a) estimating the value of goodwill that exists on entities' statements of financial position and therefore, the value of the potential effect of transition on entities' reported financial positions; and
  - (b) investigating any effects of the different transition methods on entities' listing status, ability to distribute reserves and any other effects.
- 16 To help with the above analysis, in September 2021 the IASB staff sent a request to IFASS members.
- 17 The updated IASB project plan, reflecting the above points is presented below:



#### *ASAF discussion*

- 18 At its June 2021 meeting, the ASAF discussed the areas that the IASB should take consider in its redeliberation process and the importance of convergence on this topic with US GAAP. The outcome of the discussion can be found in the [ASAF meeting summary](#) published on the IASB website. The main messages from ASAF members were:
  - (a) Decisions on the subsequent accounting of goodwill, including improvements to the impairment test, should be prioritised over disclosures, because the IASB's decisions on the subsequent accounting of goodwill could affect the disclosures that would be required.
  - (b) ASAF members expressed various opinions on the importance of convergence with US GAAP. While some members said that convergence is

a key factor for the IASB to consider, other members (including EFRAG) said that, although convergence is an important factor for the IASB to consider, it should not be the determining factor in the IASB's decision making. However, one of these members noted that the collaboration between the two boards on convergence would be beneficial if the focus of both boards is to improve the decision usefulness of information provided applying the current model for accounting for goodwill.

- (c) The FASB member said the FASB is leaning towards reintroducing amortisation of goodwill. The member further commented that there is substantial benefit in achieving convergence on the topic and from discussions with the Board. The FASB member said the FASB would like to persuade the IASB to reintroduce amortisation for goodwill.

*IASB and FASB joint meeting and tentative decisions*

- 19 In July 2019, the FASB issued an Invitation to Comment (FASB ITC) *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*. The FASB ITC was issued as part of the FASB's project on certain identifiable intangible assets acquired in a business combination and subsequent accounting for goodwill.
- 20 In July 2021, the IASB and the FASB held a joint educational meeting and discussed the status, feedback received and tentative decisions on their respective goodwill and impairment projects. Here are the links to the [IASB](#) and the [FASB](#) presentations.
- 21 The summary of the feedback received, and tentative decisions made by the two boards is presented below:

*Summary of feedback received and tentative decisions by the IASB and the FASB*

Standard Setter	Preliminary views and recent discussions	Overall feedback to the IASB DP / FASB ITC	Tentative decision
	<b>Objective and Scope</b>		
<b>IASB</b>	<p><b>Objective:</b> To improve the information entities provide to investors, at a reasonable cost, about the business combinations those entities make.</p> <p><b>Scope:</b> A package of preliminary views with a unifying objective that covers: disclosures about business combinations; the accounting for goodwill, including the impairment test; and recognition of acquired intangible assets.</p>	<p>Most respondents who commented <b>agreed with the project’s objective</b> of exploring whether entities can, at a reasonable cost, provide users with more useful information about the business combinations those entities make.</p> <p><b>Mixed views</b> on whether the <b>package</b> of preliminary views would achieve the right balance between improving the information provided to users and limiting the cost to preparers</p>	<p>IASB tentatively <b>decided to leave the objective and the scope unchanged.</b></p> <p>(June 2021)</p>
<b>FASB</b>	<p><b>Objective:</b> To revisit the subsequent accounting for goodwill and identifiable intangible assets broadly for all entities. Including considerations for improving the decision usefulness of the information and rebalancing the cost-benefit factors.</p> <p><b>Scope:</b> New guidance would apply to all entities with additional considerations for private companies and non-for-profit entities.</p>	<p>Stakeholders that responded to the FASB ITC commented that, despite the changes to the goodwill impairment model, the test continues <b>to impose undue cost and complexity</b> while providing users with <b>information that is “too little, too late.”</b></p> <p><b>Mixed views</b> on whether the project will achieve the right <b>balance between reducing cost to preparers and maintaining informational value to users.</b></p>	N/A
	<b>Subsequent accounting for goodwill – reintroducing amortisation</b>		
<b>IASB</b>	The IASB considered whether there is <b>compelling new evidence</b> supporting the reintroduction goodwill	Respondents’ <b>views</b> remain <b>mixed</b> . <b>Many respondents agreed</b> with the IASB’s preliminary	N/A

Standard Setter	Preliminary views and recent discussions	Overall feedback to the IASB DP / FASB ITC	Tentative decision
	amortisation, with the aim of <b>taking some pressure off the impairment test</b> and providing a <b>simple mechanism that targets the acquired goodwill directly</b> and reduces the possibility that the carrying amount of goodwill could be overstated because of management over-optimism or because goodwill cannot be tested for impairment directly. By a small majority (8 out of 14), the IASB reached a preliminary view that it <b>should retain the impairment-only model</b> .	view that it should <b>retain the impairment-only model</b> but <b>many other respondents disagreed, saying amortisation of goodwill should be reintroduced</b> . Respondents generally did not provide new conceptual arguments or evidence.	
FASB	<p>Whether to reintroduce goodwill amortisation and over which amortisation period. Would it provide decision-useful information?</p> <p>The FASB directed staff to perform additional research and outreach on certain <b>factors</b> that may be used to <b>estimate the useful life of goodwill</b>, including management's estimated payback period.</p> <p>(April 2021)</p>	<p>Overall, stakeholders presented diverse, <b>mixed views</b> on amortisation and impairment. <b>More than half of the respondents supported amortisation of goodwill</b>, including some financial statement users. However, <b>many others supported the impairment only model</b>. Respondents generally did not provide new conceptual rationales for amortisation.</p> <p>Respondents' views on moving to an <b>impairment-with amortisation model or retaining an impairment-only model remain mixed</b>.</p>	<p>FASB tentatively decided:</p> <ol style="list-style-type: none"> <li>1. An entity <b>should amortise goodwill on a straight-line basis</b>;</li> <li>2. Over a <b>10-year default period</b>, unless an entity elects and justifies another amortisation period based on its facts and circumstances ;</li> <li>3. Deviation from the default period will be <b>subject to a cap</b> (to be determined) with <b>no reassessment</b> required.</li> </ol> <p>(December 2020)</p>
	<b>Subsequent accounting for goodwill – improving impairment test</b>		
IASB	<p>The IASB preliminary view in the DP is that it is not feasible to design a different impairment test that is significantly more effective than the impairment test in IAS 36 <i>Impairment of Assets</i> at a reasonable cost.</p> <p>To reduce cost and complexity the IASB's preliminary view is to:</p>	<p>Most respondents <b>agreed that it is not feasible to design a different impairment test</b> that is significantly more effective at a reasonable cost. However, many respondents suggested improvements to the impairment test such as:</p> <ul style="list-style-type: none"> <li>• Ensuring consistency of assumptions used;</li> </ul>	N/A

*Business Combinations – Disclosures, Goodwill and Impairment – Project Update*

Standard Setter	Preliminary views and recent discussions	Overall feedback to the IASB DP / FASB ITC	Tentative decision
	<ul style="list-style-type: none"> <li>provide relief from the mandatory annual quantitative impairment test of CGUs containing goodwill, thereby leaving only an indicator-based test;</li> <li>allow an entity to use post-tax cash flows and post-tax discount rates in estimating value in use (VIU); and</li> <li>remove restrictions on including in estimates of VIU cash flows arising from a future restructuring to which an entity is not yet committed or from improving or enhancing an asset's performance.</li> </ul>	<ul style="list-style-type: none"> <li>Disclosing a comparison of forecasts prepared for the impairment test in prior years with actual cash flows;</li> <li>Reconsidering the level at which the test is performed;</li> <li>Adding guidance on allocating goodwill to CGUs, etc.</li> </ul> <p>Most respondents, including some preparers, <b>did not support the IASB's preliminary view that it should provide relief from the annual quantitative impairment test</b> of CGUs containing goodwill. Respondents generally welcomed the IASB's preliminary views on simplifying and improving the estimation of value in use.</p>	
FASB	<p>The FASB discussed potential changes to the existing goodwill impairment model:</p> <ul style="list-style-type: none"> <li>Unit of account to test goodwill for impairment;</li> <li>Frequency of the goodwill impairment test; and</li> <li>Timing of triggering-event evaluation.</li> </ul> <p>(June 2021)</p> <p>The FASB discussed of the merits of either retaining the unit of account for testing goodwill impairment at the reporting unit (RU) level or moving to either the operating or reportable segment level.</p> <p>The FASB discussed whether to retain the annual goodwill testing requirement or move to a trigger-based test.</p>	<p>Users preferred <b>more disaggregated</b> and granular information about specific acquisitions and therefore, most supported retaining impairment testing at the RU level.</p> <p>Some stakeholders (including a few users) noted that the <b>impairment testing should be performed at the reportable segment level</b>.</p> <p>Many stakeholders that responded to the FASB's ITC, <b>supported using a trigger-only impairment test when paired with the amortisation of goodwill</b>.</p> <p>Some stakeholders supported retaining the current model including the annual impairment test.</p> <p>Most users did not object to eliminating the annual impairment test.</p>	N/A

*Business Combinations – Disclosures, Goodwill and Impairment – Project Update*

Standard Setter	Preliminary views and recent discussions	Overall feedback to the IASB DP / FASB ITC	Tentative decision
	<b>Disclosures about Business Combinations and Goodwill</b>		
<b>IASB</b>	<p>In its DP, the IASB tentatively decided to add a requirement to disclose:</p> <ul style="list-style-type: none"> <li>• in the year in which a business combination occurs: <ul style="list-style-type: none"> <li>○ the strategic rationale and objective for a business combination;</li> <li>○ the metrics that management will use to monitor whether the objectives of the business combination are being met.</li> </ul> </li> <li>• in subsequent periods, the extent to which management's objectives for the business combination are being met using those metrics.</li> </ul> <p>Make targeted improvements to disclosure requirements, e.g. requiring quantitative information about expected synergies.</p>	<p>Many respondents, including <b>almost all users, agreed</b> with the IASB's preliminary views. However, <b>many respondents, including almost all preparers, disagreed</b>. Those respondents identified practical challenges with the IASB's preliminary view, such as costs outweighing the benefits.</p> <p>Some respondents, mainly in Europe, were also concerned that the required disclosure will put entities applying IFRS Standards at a disadvantage compared to other entities, notably those applying US GAAP.</p>	N/A
<b>FASB</b>	<p><b>Goodwill and Impairment:</b> Disclose facts and circumstances associated with an impairment test not resulting in impairment loss.</p> <p><b>Intangible Assets:</b> Disclose quantitative and qualitative information about the agreements (contracts) underpinning material intangible assets.</p> <p><b>Consequential Disclosures</b> such as amortisation period if goodwill amortisation is reintroduced.</p> <p>The ITC discussed several reasons for <b>not considering disclosures on acquisition-specific performance</b>.</p>	<p>Most respondents <b>did not support the additional disclosures</b> included in the FASB's ITC.</p> <p>The following reasons were provided:</p> <ul style="list-style-type: none"> <li>• It would require an entity to track against management-designated targets for several years and, thus, would require additional cost and introduce commercial sensitivity;</li> <li>• Disclosing that type of forward-looking information may overlap with MD&amp;A disclosures.</li> </ul>	N/A
	<b>Intangible Assets Acquired in a Business Combination</b>		



*Business Combinations – Disclosures, Goodwill and Impairment – Project Update*

Standard Setter	Preliminary views and recent discussions	Overall feedback to the IASB DP / FASB ITC	Tentative decision
IASB	<p>The IASB’s preliminary view in the DP is that it <b>should not</b> develop a proposal to <b>change the recognition criteria for identifiable intangible assets</b> acquired in a business combination. The IASB found no compelling evidence that existing requirements should be amended.</p>	<p>Most respondents agreed with the IASB’s preliminary view that it should not develop proposals to change the recognition criteria for identifiable intangible assets acquired in a business combination.</p>	N/A
FASB	<p>The FASB asked respondents to comment on four potential approaches for the recognition of identifiable intangible assets:</p> <p><b>Approach 1:</b> Extend the private company alternative to subsume certain customer-related intangible assets (CRIs) and all noncompete agreements (NCAs) into goodwill.</p> <p><b>Approach 2:</b> Apply a principles-based criterion for intangible assets.</p> <p><b>Approach 3:</b> Subsume all intangible assets into goodwill.</p> <p><b>Approach 4:</b> Do not amend the existing guidance.</p> <p>The FASB directed the staff to perform additional research and outreach on users’ perspectives on what types of intangibles provide decision-useful information.</p> <p>(April 2021)</p>	<p>Most stakeholders that responded to the FASB ITC supported <b>retaining current accounting</b> for intangible assets acquired in a business combination, because it provides decision useful information and the benefits justify the costs.</p>	N/A
	<p align="center"><b>Convergence between IFRS and US GAAP</b></p>		
IASB	<p>The IASB asked respondents whether their responses depend on whether the outcome is consistent with US GAAP.</p>	<p>Most of those respondents commenting said that convergence on this topic with US GAAP <b>was desirable</b>. However, many respondents said that their view on subsequent accounting of goodwill did not depend on maintaining convergence.</p>	N/A

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Standard Setter	Preliminary views and recent discussions	Overall feedback to the IASB DP / FASB ITC	Tentative decision
FASB	The FASB asked respondents to consider comparability and its importance between U.S. PBEs, between GAAP and IFRS Standards, and between all U.S. entities, both public and private.	<p>Many respondents commented that maintaining convergence <b>was desirable</b>, while others were less concerned about possible divergence.</p> <p>Many respondents said that <b>comparability with IFRS is relatively less important</b> than comparability between U.S. public business entities and between all U.S. entities, both public and private.</p>	N/A

### **Next steps**

- 22 The EFRAG Secretariat will continue to monitor the IASB work and inform EFRAG TEG through project updates.
- 23 The FASB plans to perform research and analysis on the following topics: Consequential Disclosures; Financial Statement Presentation and on Transition requirements.
- 24 In September 2021, as part of the request by the IASB in July 2021 to conduct further research on how goodwill is accounted for under local GAAPs and views on the estimation of goodwill useful lives, the IASB staff sent a request to IFASS members to ask IFASS to provide information in this regard by 12 November 2021. EFRAG will discuss this request at the EFRAG TEG-CFSS meeting in November.

### **Questions for EFRAG TEG**

Does EFRAG TEG have any comments on the feedback received by the IASB and the FASB and the proposed IASB project plan?

Does EFRAG TEG have any feedback on the IASB staff request to IFASS?