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Business Combinations – Disclosure, Goodwill and Impairment

Improvements to the goodwill impairment test Cover Note

Objective of this session

- 1 The purpose of this session is to collect views from EFRAG FR TEG members on the IASB tentative decisions taken at its meetings March and May 2023 on improvements to the goodwill impairment test under IAS 36 *Impairment of Assets*.

Background

- 2 The IASB issued the Discussion paper [Business Combinations – Disclosures, Goodwill and Impairment](#) ('the DP') in March 2020 and started redeliberating the proposals in 2021.
- 3 In November 2022, the IASB tentatively decided to maintain its preliminary view to retain the impairment-only model for the subsequent accounting for goodwill.
- 4 So far, IASB has taken tentative decisions on most aspects of disclosures on the objective and subsequent performance of a business combination.
- 5 In 2023, the IASB started to redeliberate improvements to the goodwill impairment test including reducing costs and complexity of applying the test and improving effectiveness of the impairment test.
- 6 An overview of the IASB tentative decisions so far is provided in the appendix to [IASB AP18](#) of the May 2023 IASB meeting.
- 7 An exposure draft is expected in 2024.

Key discussion points for the session

- 8 The key points for discussion for today's session are:
 - (a) Value in use – future restructurings, post tax cash flows and difference between value in use and fair value less costs to sell (AP 05-02)
 - (b) Goodwill impairment test – measuring recoverable amount (AP 05-02)
 - (c) Improvements and review of existing disclosure requirements in IFRS 3 *Business Combinations* (AP 05-02)
 - (d) Goodwill impairment test – reducing costs and complexity and improving effectiveness of the test (AP 05-03)

Next steps

- 9 In the coming months the IASB staff plan to ask the IASB to tentatively decide on:
 - (a) whether to pursue respondents' suggestions to improve the application of the impairment test discussed in Agenda Papers 18C and 18D of the May 2023 IASB meeting; and
 - (b) the remaining aspects of the package of disclosure requirements—for example the scope of entities subject to the proposed disclosure requirements about the subsequent performance of business combinations.
- 10 Once the IASB has made tentative decisions on all aspects of the project, the IASB staff will ask the IASB whether the package as a whole meets the project objective and whether it would like to publish an exposure draft setting out its proposals.
- 11 The EFRAG Secretariat will continue to update EFRAG FR TEG and EFRAG User Panel as the project progresses.
- 12 The EFRAG Secretariat is also planning targeted outreach on aspects of the disclosure requirements – namely the subset of business combinations considered to be “strategically important” and application of the exemption for disclosure requirements.

Agenda Papers

- 13 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 05-02 – Goodwill impairment test – reduce costs and complexity; and
 - (b) Agenda paper 05-03 – Goodwill impairment test – reduce costs and complexity and improve effectiveness of the test.