

# IASB ED Goodwill and Impairment

SUPPORTING MATERIAL FOR EFRAG TEG DISCUSSION

EFRAG TEG WEBCAST MEETING 6 APRIL 2020



**EFRAG**

European Financial Reporting Advisory Group

## Reference to questions in the DP

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Discussion Paper Business Combinations—Disclosures, Goodwill and Impairment  
can be found under the following link:

<https://cdn.ifrs.org/-/media/project/goodwill-and-impairment/goodwill-and-impairment-dp-march-2020.pdf>

Paragraphs in the following table refer to the paragraphs in the Discussion Paper

## List of questions in the DP (Question 1)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q1. Paragraph 1.7	Discussed	Companies would be required to provide investors with more useful information about the businesses those companies acquire.	Agree, (however EFRAG regrets that the proposals in this DP do not aim at addressing the current shortcomings in goodwill accounting)

## List of questions in the DP (Question 2)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q2. (a)+(b) (i) Paragraph 2.4 to 2.12	Discussed	Disclose whether objectives defined at acquisition date are met, using metrics that are consistent with CODM's monitoring	Agree, (however, would not resolve the issues related to current goodwill accounting and questions if CODM level of monitoring is appropriate)
Q2. (b) (ii) Paragraph 2.13 to 2.40	Discussed	Subsequent disclosure whether objectives defined at acquisition date are met, using metrics that are consistent with CODM's monitoring	Agree, ((a) consistent with internal information to the extent possible; and (b) guidance with examples of metrics could help))

## List of questions in the DP (Question 2)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q2. (b) (iii)  Paragraph 2.19 to 2.20	Discussed	Do not disclose metrics, if CODM does not monitor	Agree, (however, questionable for material acquisitions; if integrated, it may be difficult to monitor whether the objectives of an acquisition have been met)
Q2. (b) (iv/v)  Paragraph 2.41 to 2.44	Discussed	Stop disclosing if CODM stops monitoring and disclose reason for stopping	Agree, (however, questionable for material acquisitions; two years period is questionable; management should disclose if stops monitoring)

## List of questions in the DP (Question 2)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q2. (b) (vi) Paragraph 2.21	Discussed	If metrics are changed, adjust disclosure accordingly	Agree
Q2. (c) Paragraph 2.33 to 2.40	Discussed	Disclosure is required only for acquisitions that are monitored by the CODM	Agree, (lower than CODM level could be used, costs for preparers to provide the information could outweigh the benefits)

## List of questions in the DP (Question 2)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q2. (d)  Paragraph 2.27 to 2.28	Discussed	Commercial sensitivity	Agree, ((a) to strike the balance between commercially sensitive forward-looking information and being useful to users; and (b) supports conducting additional activities relating to sensitivity)
Q2. (e)  Paragraph 2.29 to 2.32	Discussed	Forward-looking vs. Target information	Agree, (no constraints in EEA)

## List of questions in the DP (Question 3)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q3.  Paragraph 2.53 to 2.60	Discussed	Disclose information about the strategic rationale and management's objectives for an acquisition as at the acquisition date	Agree, (only as long as it continues to monitor the acquisition)



## List of questions in the DP (Question 4)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q4.  Paragraph 2.62 to 2.71	Discussed	Disclosure to be provided in the acquisition period <ol style="list-style-type: none"> <li>1. Description of synergies;</li> <li>2. When synergies are expected</li> <li>3. Estimated amount/range of the synergies;</li> <li>4. Expected cost to achieve synergies;</li> <li>5. Specify liabilities from financing and DBP liabilities are major classes of liabilities.</li> </ol>	Agree, (but questions if benefits would outweigh the costs and how a materiality threshold would apply to the disclosure and; Doubts about reliability and commercial sensitivity of 2 and 3 and; Further assessment of practicability is needed. 5. Agree)

## List of questions in the DP (Question 5)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q5. (a)+(b)  Paragraph 2.82 to 2.87	Discussed	(a) Retain pro-forma information in IFRS 3 (b) Asks for input on additional guidance	Agree (suggest to develop illustrative examples)
Q5. (c)  Paragraph 2.78 to 2.81	Discussed	Amend IFRS 3 (for acquisitions in the period disclose revenue and P&L of the acquired business after the acquisition date) (a) 'operating profit before deducting acquisition-related transaction and integration costs' for both the pro forma information and information about the acquired business after the acquisition date. (b) disclose the cash flows from operating activities of the acquired business after the acquisition date, and of the combined business on a pro forma basis for the current reporting period.	(a) Agree, (suggests referring to 'operating profit or loss before deducting acquisition-related costs and integration costs' to align the figure with the proposed definition of 'operating profit or loss') (b) Disagree, (the usefulness of this information would be very limited and that it would be costly to prepare when the acquired business is fully integrated and does not prepare separate accounts)

## List of questions in the DP (Question 6)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q6. (a)+(b)  Paragraph 3.2 to 3.52	Discussed	Not feasible to design an impairment test that is significantly more effective at a reasonable cost	To be developed in FCL, but provisionally disagree (Impairment testing can be improved at reasonable cost: (a) guidance on allocation to CGUs; (b) rules in relation to disposal of business and reorganisations; (c) transparency)
Q6. (c)+(d)  Paragraph 3.20	Discussed	Impairment losses are not recognised on a timely basis due to management over-optimism and the shielding effect.	Agree, (disclosures of the expected management cash flows over the period before the terminal value should be improved)

## List of questions in the DP (Question 7)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q7. (a) Paragraph 3.86 to 3.94	Discussed  (written comments)	Retain impairment approach, without amortisation of goodwill	No EFRAG view formed yet. EFRAG is seeking views from constituents.  EFRAG agrees with the arguments exposed in the ED for supporting both approaches
Q7. (b) Paragraph 3.86 to 3.94	Discussed  (written comments)	Which new evidence do exist in favour and against impairment?	No EFRAG view formed yet. EFRAG is seeking views from constituents.  EFRAG agrees with the arguments exposed in the ED for supporting both approaches

## List of questions in the DP (Question 7)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q7. (c) Paragraph 3.86 to 3.94	Discussed  (written comments)	Would amortisation solve the too late problem?	Agree, (those that support amortisation do so from a practical point of view. A systematic path of reduction through amortisation expenses would result in the progressive derecognition of goodwill)
Q7. (d) Paragraph 3.86 to 3.94	Discussed  (written comments)	Is acquired goodwill distinct from internally generated GW in a CGU?	Disagree, (from an accounting perspective, without a change to the allocation to the CGU, distinction is not possible)

## List of questions in the DP (Question 7)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
<p>Q7. (e)</p> <p>Paragraph 3.86 to 3.94</p>	<p>Discussed</p> <p>(written comments)</p>	<p>If amortisation were to be reintroduced, do you think companies would adjust or create new MPM to add back the amortisation expense?</p> <p>Under the impairment-only model, are companies adding back impairment losses in their MPM?</p>	<p>EFRAG is seeking views from constituents.</p> <p>EFRAG observes that one of the most frequent items that companies remove from their profit or loss when illustrating the “normal” or “recurring” net result is the impairment loss on goodwill.</p>
<p>Q7. (f)</p> <p>Paragraph 3.86 to 3.94</p>	<p>Discussed</p> <p>(written comments)</p>	<p>If amortisation were to be reintroduced how should the useful life of goodwill and its amortisation pattern be determined</p>	<p>EFRAG is seeking views from constituents.</p>

## List of questions in the DP (Question 8)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q8. (a)+(b)  Paragraph 3.107 to 3.114	Discussed  (written comments)	Present the amount of total equity excluding goodwill	Disagree, (not useful and would create confusion as to whether goodwill is an asset or not)

## List of questions in the DP (Question 9)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q9. (a)  Paragraph 4.32 to 4.34	Discussed  (written comments)	Remove the requirement for a company to perform an annual impairment test for CGUs containing goodwill if there is no indication that CGUs may be impaired. Moving to an indicator-based approach would place more reliance on identifying indicators of impairment	Disagree with introducing an indicator-only approach unless goodwill amortisation is reintroduced. EFRAG has not yet formed a view on reintroduction of amortisation.



## List of questions in the DP (Question 9)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q9. (b) Paragraph 4.14 to 4.21	Discussed (written comments)	Mixed views on the cost of the proposal in Q9. (a)	EFRAG is seeking views from constituents.  Could be some cost savings
Q9. (c) Paragraph 4.22 to 4.23	Discussed (written comments)	Mixed views on the decreased of the robustness of the impairment test if apply the proposal in Q9. (a)	Agree, (simplify the test without making it significantly less robust)

## List of questions in the DP (Question 10)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q10. (a)+(b)  Paragraph 4.35 to 4.52	Discussed  (written comments)	Remove the restriction in IAS 36 that prohibits companies from including some cash flows in estimating ViU. Allow companies to use post-tax cash flows and post-tax discount rates in estimating ViU	Agree

## List of questions in the DP (Question 11)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
<p>Q11. (a)+(b)</p> <p>Paragraph 4.55 to 4.56</p>	<p>Discussed</p>	<p>Develop further simplification to the impairment test:</p> <p>(a) adding more guidance on the difference between entity-specific inputs used in value in use and market-participant inputs used in fair value less costs of disposal.</p> <p>(b) mandating only one method for estimating the recoverable amount of an asset or requiring a company to select the method that reflects the way the company expects to recover an asset.</p> <p>(c) allowing companies to test goodwill at the entity level or at the level of reportable segments.</p>	<p>Agree, (however, does not support the IASB view to not adding further guidance on allocating goodwill to cash-generating units)</p>

## List of questions in the DP (Question 12)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q12. (a)+(b)+(c)  Paragraph 5.4 to 5.27	Discussed	Do not develop a proposal to change the recognition criteria for identifiable intangible assets acquired in a business combination	Agree, (however, considers that whether some intangible asset should be included in goodwill, in particular to enhance comparability between internally generated and acquired intangibles should be part of the IASB research agenda)

## List of questions in the DP (Question 13)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q13.  Paragraph 6.2 to 6.13	Not discussed	The response depends on whether the outcome is consistent with US GAAP as it exists today	EFRAG's answers to the questions in the DP do not depend on whether the outcome is consistent with US GAAP as it exists today. Convergence with FASB should be taken into account, but not as overriding principle.

## List of questions in the DP (Question 14)

QUESTION	EFRAG TEG PREVIOUS DISCUSSION	IASB PROPOSAL	EFRAG SECRETARIAT PROPOSAL
Q14.	Not discussed	Other comment on IASB preliminary views	(a) EFRAG considers that the DP could have encouraged a discussion on separating goodwill into components; and  (b) EFRAG considers that the IASB should also have considered more guidance on goodwill allocation to divested businesses and reorganisations.

## Reference to questions in the DP

### Discussion Paper Business Combinations—Disclosures, Goodwill and Impairment

QUESTION	PARAGRAPH REFERENCE
Q1.	Paragraph 1.7
Q2. (a)+(b) (i)	Paragraph 2.4 to 2.12
Q2. (b) (ii)	Paragraph 2.13 to 2.40
Q2. (b) (iii)	Paragraph 2.19 to 2.20
Q2. (b) (iv/v))	Paragraph 2.41 to 2.44
Q2. (b) (vi))	Paragraph 2.21
Q2. (c)	Paragraph 2.33 to 2.40
Q2. (d)	Paragraph 2.27 to 2.28
Q2. (e)	Paragraph 2.29 to 2.32
Q3.	Paragraph 2.53 to 2.60
Q4.	Paragraph 2.62 to 2.71
Q5. (a)+(b)	Paragraph 2.82 to 2.87
Q5. (c)	Paragraph 2.78 to 2.81

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QUESTION	PARAGRAPH REFERENCE
Q6. (a)+(b)	Paragraph 3.2 to 3.52
Q6. (c)+(d)	Paragraph 3.20
Q7. (a)	Paragraph 3.86 to 3.94
Q7. (b)	Paragraph 3.86 to 3.94
Q7. (c)	Paragraph 3.86 to 3.94
Q7. (d)	Paragraph 3.86 to 3.94
Q7. (e)	Paragraph 3.86 to 3.94
Q7. (f)	Paragraph 3.86 to 3.94
Q8. (a)+(b)	Paragraph 3.107 to 3.114
Q9. (a)	Paragraph 4.32 to 4.34
Q9. (b)	Paragraph 4.14 to 4.21
Q9. (c)	Paragraph 4.22 to 4.23



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QUESTION	PARAGRAPH REFERENCE
Q10. (a)+(b)	Paragraph 4.35 to 4.52
Q11. (a)+(b)	Paragraph 4.55 to 4.56
Q12. (a)+(b)+(c)	Paragraph 5.4 to 5.27
Q13.	Paragraph 6.2 to 6.13
Q14.	



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THANK YOU



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