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## **Collection of additional evidence for the project on goodwill Issues Paper**

### **Objective**

- 1 The objective of this session is to collect suggestions from EFRAG TEG on whether, and if so, what additional evidence/information should be collected before EFRAG issues its final comment letter on the IASB's forthcoming discussion paper on goodwill (the 'DP').

### **Information collected**

- 2 At its January 2020 meeting, EFRAG TEG was presented with a paper summarising:
  - (a) academic literature on goodwill identified by the EFRAG Academic Panel and the EFRAG Academic Network;
  - (b) recent discussion papers of the International Valuation Standards Council (IVSC) on goodwill;
  - (c) an article from the CPA Journal from 2019 showing that there would be a noticeable decline in companies' earnings and earnings-based financial ratios if amortisation of goodwill was reintroduced; and
  - (d) views from the big audit firms, main users' organisations and standard setters on amortisation of goodwill provided in response to the FASB's Invitation to Comment *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*.
- 3 A paper was also prepared on EFRAG's previous consultations on goodwill including the responses received. This included additional arguments in favour and against amortising goodwill.
- 4 In one of the previous consultations which EFRAG did on goodwill together with the OIC, it issued a questionnaire which, among other things, collected views on the impairment only approach and pro-cyclicality. These findings will be brought to the attention of the EFRAG Board. In that regard, also the findings published in September 2016 in EFRAG's quantitative study *What do we really know about goodwill and impairment?* could be used. The findings in this paper shows that goodwill impairment losses generally tend to be higher when financial markets are negative and lower when they are positive.
- 5 The project has been discussed by:
  - (a) the EFRAG User Panel at its meetings in December 2018 and July 2019 (and again at its joint meeting with EFRAG TEG in March 2020);
  - (b) the EFRAG Academic Panel in October 2019; and

- (c) the EFRAG Financial Instrument Working Group in January 2020.

### **Information in the process of being collected**

- 6 Following the January 2020 EFRAG TEG meeting the EFRAG Secretariat is preparing a short questionnaire for M&A professionals. The purpose of the questionnaire is to collect evidence on whether goodwill amortisation could affect the level/prices/conditions of M&A activities – particularly if it could result in entities being less likely to acquire another business if it is questionable whether the acquiree will benefit from the acquisition.

### **Information to be collected**

- 7 At its meeting in January 2020, EFRAG TEG suggested to ask preparers with goodwill on their balance sheet, whether they would have amortised goodwill if that would be allowed, and if so, what amortisation period they would have used. The consultation should also provide input on what preparers consider their goodwill to consist of. This is relevant to assess whether goodwill would generally be a wasting asset or not. The EFRAG Secretariat is coordinating with the National Standard Setters in preparing a list of possible preparers for responding to the questionnaire. The input collected will be used in preparing EFRAG's FCL.
- 8 For assessing the impact of amortising goodwill, should the EFRAG Board decide to consider this, the EFRAG Secretariat will also prepare a questionnaire for credit analysts and rating agencies. The purpose of this questionnaire would be to receive input on whether goodwill today is deducted from equity for credit decisions and whether the goodwill figure would be used differently if goodwill were to be amortised and whether changes in how goodwill is accounted for and disclosure provided could have impact on lending terms and credit ratings.
- 9 A few cases of entities that have been delisted due to bankruptcy will be examined. The examination would focus on the amount of goodwill recognised before the bankruptcy and the disclosure provided in relation to the goodwill and the impairment test. The assumption would be that high amounts of goodwill before an entity would go bankrupt could result in a decrease in public confidence in financial reporting information which could affect an efficient capital allocation and hence economic growth.

### **Information that might be collected**

- 10 The EFRAG Secretariat is considering whether it would be useful to extend the questionnaire following from paragraph 7 above to include questions on:
- (a) Changes in the costs of preparing financial statements if goodwill is to be amortised (in addition to being impairment tested on a yearly basis).
  - (b) Whether a requirement to amortise goodwill would affect the level of M&A activities in the organisation.
  - (c) Expected cost savings of introducing an indicator only approach (and what parts of the impairment test current costs are related to).
  - (d) What actions could be taken to avoid compromising the robustness of an indicator only approach (if such an approach would be introduced).
  - (e) Expected additional costs of (each of) the additional disclosure requirements proposed in the DP.
  - (f) For selected additional disclosure requirements proposed in the DP, to what extent the information provided by the preparer will be limited for confidentiality reasons.

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- (g) Expected cost savings from the proposals in the DP on how to calculate value in use.
- (h) Expected additional costs of IFRS and US GAAP being less converged in relation to the accounting for goodwill (impact to be considered separately for: the identification of intangible assets and goodwill amortisation).

The questionnaire will be finalised once the DP and the questions included in it are finally known.

**Questions for EFRAG TEG**

- 11 Would EFRAG TEG consider it useful to extend the questionnaire to preparers following paragraph 7 above with some or all of the questions listed in paragraph 10?
- 12 Does EFRAG TEG have any comments to the information suggested to be collected in paragraphs 7 to 9?
- 13 Does EFRAG TEG have any additional suggestions on what information should be collected to better assess the impact of the proposals in the DP?
- 14 Does EFRAG TEG have any additional suggestions on what information could be useful for the EFRAG Board's discussion on whether sufficient evidence exist to justify a major change in the recognition and measurement of goodwill?