

BUSINESS COMBINATIONS: DISCLOSURES, GOODWILL AND IMPAIRMENT

SUMMARY REPORT

WEBINAR – 23 OCTOBER 2020



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.

Background

EFRAG and the IASB organised, together with the FSR – Danish Auditors and the Confederation of Danish Industry (DI), a joint online outreach event on 23 October 2020. The aim of the event was to stimulate the discussion around the IASB's Discussion Paper DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment* ('the DP'), including EFRAG's 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 presentation slides of the event can be found [here](#). The speakers' and panellists' biographies 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's preliminary positions 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 sections. As not all the questions of the participants could be discussed due to time limitation, the total list of incoming questions that are not discussed during the outreach is listed in the Appendix to this report for information purposes.

Introduction

Torben Johansen, Chairman of the Danish Accounting Standards Committee (DASC), opened the event and welcomed participants.

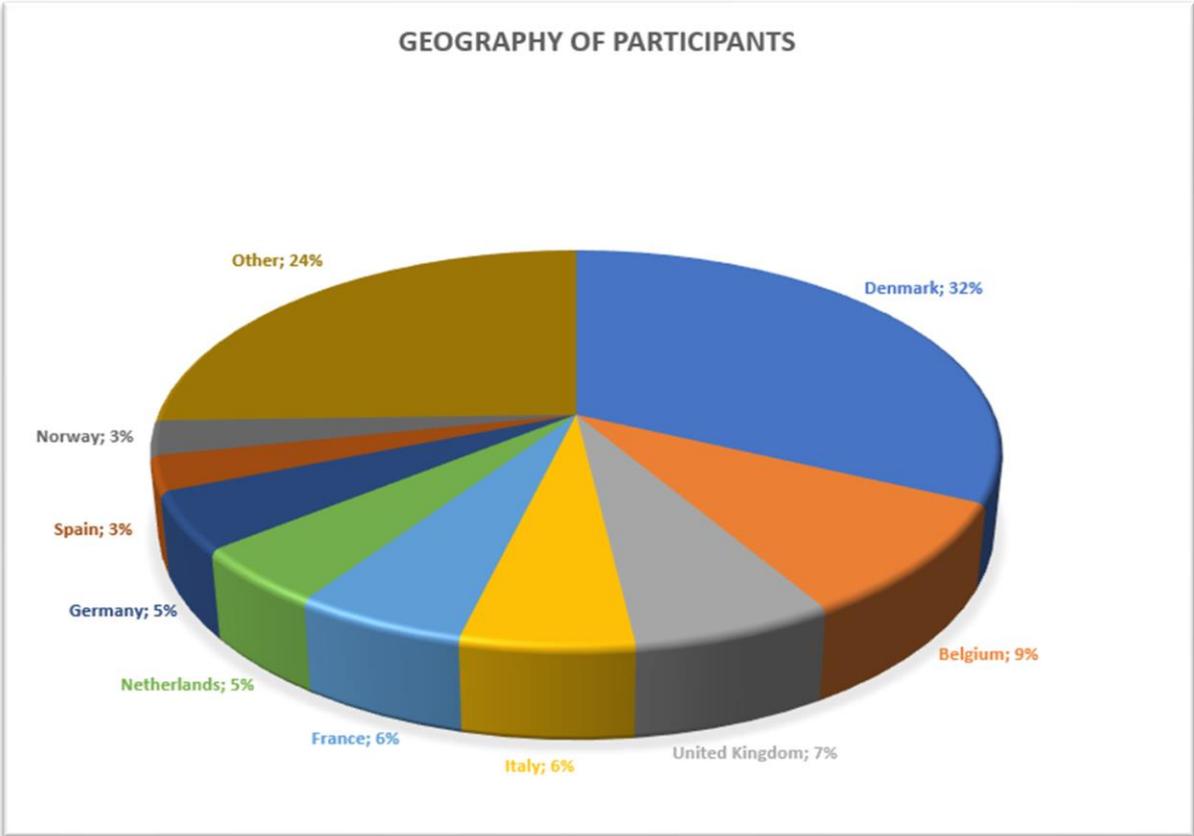
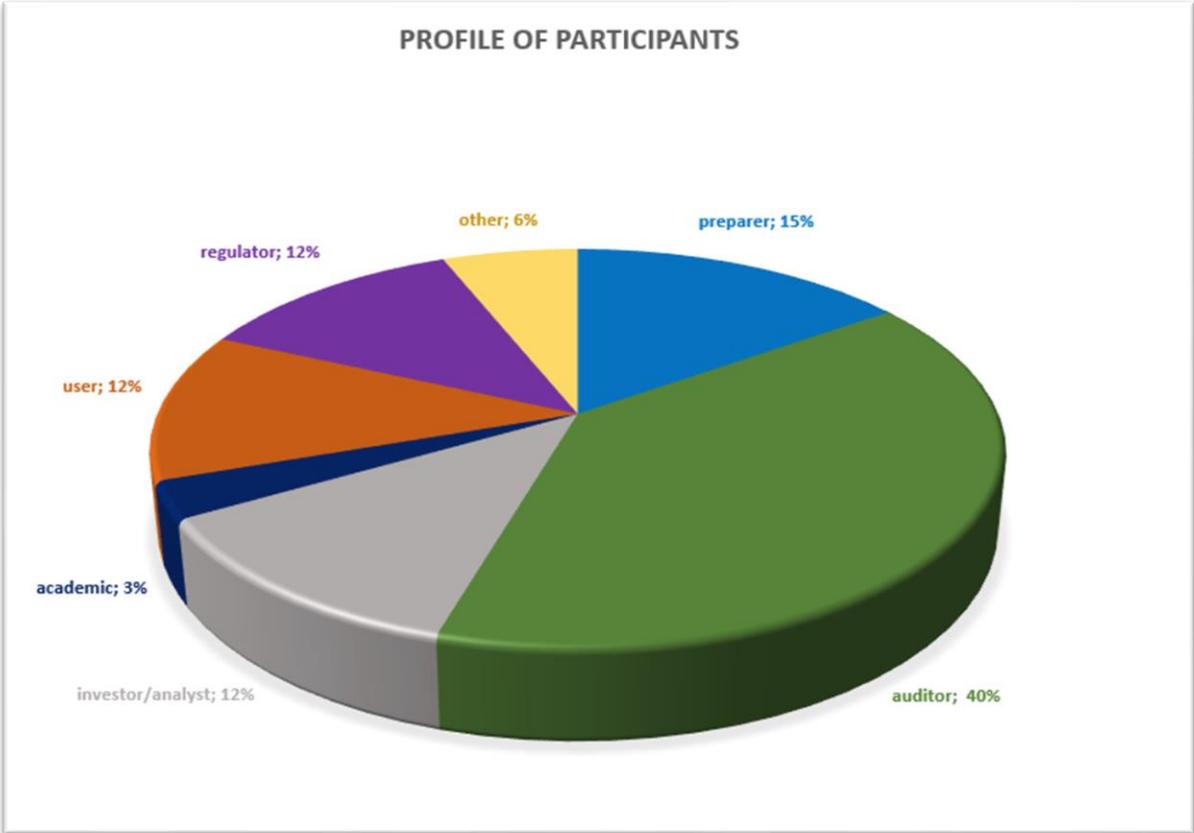
Kristian Kockvedgaard, Head of VAT, Accounting, and Audit at the Confederation of Danish Industry and co-moderator of the online joint outreach event and welcomed participants and highlighted the importance of the topic.

Jan Peter Larsen, International Liasons (DASC) and co-moderator of the online joint outreach event, together with **Kristian Kockvedgaard**, summarised the results of the first polling question (see below) showing that, next to the high representation of auditors, there was a good mixture of participants at the event. The moderators introduced the agenda and the presenters.

Tom Scott, the IASB Board member, noted that any views of the IASB representatives during this outreach event are personal views and not necessarily the IASB's views. He summarised the objective, timeline and the main topics of the DP for which the IASB was seeking feedback and introduced the IASB's preliminary views on these topics.

Chiara Del Prete, EFRAG TEG Chairwoman, summarised the preliminary views of EFRAG on the topics in the DP and explained that accounting for goodwill has been on EFRAG's research agenda for a long time. She noted that some of the proposals resulting from EFRAG's research had been taken into account in the IASB DP. Furthermore, she referred to the consultations on this topic available on EFRAG's website.

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.

Presentation and discussion

Topic 1: Disclosure about Business Combinations

Presentation

Paolo Dragone, IASB Technical Staff, presented the proposed disclosure requirements included in the DP.

Rasmus Sommer, EFRAG Technical Staff, presented the preliminary views of EFRAG as included in EFRAG's draft comment letter ('the DCL') and highlighted the issues on which EFRAG's tentative views deviated from the proposals in the DP. He also listed the topics on which EFRAG was particularly interested in input from constituents.

Discussion

Carsten Just Andersen, Director Consolidation & External Reporting at Arla Foods, argued that currently detailed information was already provided in the financial statements on business acquisitions. Instead of introducing new disclosures requirements, new recommendations or guidelines should rather be considered. At Arla, business combinations were often made in order to benefit from synergies. Disclosing detailed information on these synergies could harm the way these could be implemented. For example, if a business case were based on restructurings and reorganisations, the execution could be harmed if disclosures of these plans had to be provided. Additionally, the requirements could result in commercially sensitive information would have to be disclosed, which could harm the competitive position and influence negotiations of future acquisitions. Moreover, he noted that the objective was often to integrate an acquired business as soon as possible, which would make it difficult to track the performance of the acquired business. In situations where a trademark or a new line of business was acquired, it would, on the other hand, be possible to monitor the subsequent performance of the acquired business. Finally, he noted that the proposed disclosures should be included in the management commentary instead of the financial statements to enable flexibility, so preparers can disclose the information in the right context.

Lone Bregendahl, Compliance Manager at ISS, agreed with Carsten Just Andersen. For ISS it would be impossible to monitor the performance of specific acquisitions as the aim was to integrate the acquiree as soon as possible. Secondly, she confirmed that sharing the disclosures on specific acquisitions would be highly sensitive – both in relation to the integration and commercially. She also agreed, that if the disclosures would be required, it should be included in the management commentary instead of the financial statements. It could then be more flexible what information could be shared.

Paolo Dragone explained the preliminary view of the IASB relating to the location of the disclosures. He mentioned that the current disclosures were provided by preparers on a voluntary basis. Feedback from investors showed that the information on subsequent performance currently disclosed by entities on a voluntary basis was insufficient and inconsistent. He explained that if the information would be located in the management commentary, the requirement should be included in the Practice Statement, which is not compulsory. In that case, the non-compulsory requirement would not lead to sufficient and consistent disclosure. Therefore, the IASB's preliminary view was to include the disclosures in the financial statements.

Chiara Del Prete explained that EFRAG did not yet have a position on the location of the disclosures as it was consulting constituents on this issue. She noted that advantages of requiring the information in the notes to the financial statements were that the information would be audited and entities would be required to present the same information, which would make the information more comparable. On the other hand, the information was mostly forward-looking and different types of information may be relevant for different entities. For these reasons, disclosures in the management commentary could seem most appropriate.

Paolo Dragone responded to a question of **Jan Peter Larsen**, confirming that fieldwork was performed to clarify if the information reviewed at CODM-level matched the information needs of users. He noted that the goal was to find a right balance between the disclosures required and the cost to prepare them.

Tom Scott questioned why entities would not be able to monitor acquisitions when the acquired business is integrated subsequently. He argued that entities would have some expectations on how the combined entity would perform to justify the price paid. In that case, the performance of a combined entity could be tracked after the integration.

Carsten Just Andersen responded that the performance of the combined business as a whole was normally already provided. In his view, the overall performance of a company, and its particular business areas would be more interesting to stakeholders than the performance relating to a specific acquisition.

Tom Scott agreed with the statement that users had interest in the overall performance of a company, however, stated that feedback showed that users were also specifically requesting information on the performance of acquisitions. In case the acquired business was subsequently integrated, he expected that the monitoring can be performed on the combined business. For example, when the acquired business was integrated in a division of a company, the monitoring can be performed on that division level. One of the reasons for the IASB to suggest to base the information on the management's view was to allow information on the combined parts of the business, not only the acquired business, if the success of an acquisition would be based on the achievements of the combined business. Another reason was that the information provided should only consider material acquisitions. He agreed with Carsten Just Andersen that users of financial statements were interested in the performance of the combined business. However, users had informed the IASB that for a period of time after an acquisition, they were also interested in knowing whether significant acquisitions met their objectives.

Audience question: *Aren't the new disclosure requirements putting a lot of pressure on the preparers (synergies, performance as such, commercial sensitivity, etc.)? Will this not lead to standardised comments that will ultimately not add a lot for analysts?*

Tom Scott replied that the IASB had suggested to base the information on what the management was monitoring in order to avoid standard disclosures. He reminded that IFRS 3 already required a lot of disclosures relating to major acquisitions. There was a real price paid for the acquisition, which gave an anchor for the related assumptions made when deciding to acquire a business. Users would be interested in the assumptions justifying the price paid for a business to assess whether the entity was good at making acquisitions – that was holding management accountable for their decisions and procedures relating to acquisitions. He noted that the disclosure requirements on regulated markets were already profound and companies were reporting a lot of information relating to acquisitions. The aim of the IASB was to require companies to capture and disclose those assumptions and information that was linked to justifying the price paid.

Rasmus Sommer acknowledged the concern expressed in the question from audience relating to commercial sensitivity and stated that EFRAG will investigate the commercial sensitivity further. He noted that one of the issues EFRAG would have to investigate was whether it would result in useful information only to disclose the information that would not be considered commercially sensitive. For example, would it be useful if an entity would only disclose some of the metrics it would use to assess an acquisition, but not others, or would this information be misleading because it would not be complete.

Audience question: *Does any research show the extent to which companies are monitoring the performance of their acquisitions, and if so, how and for how long?*

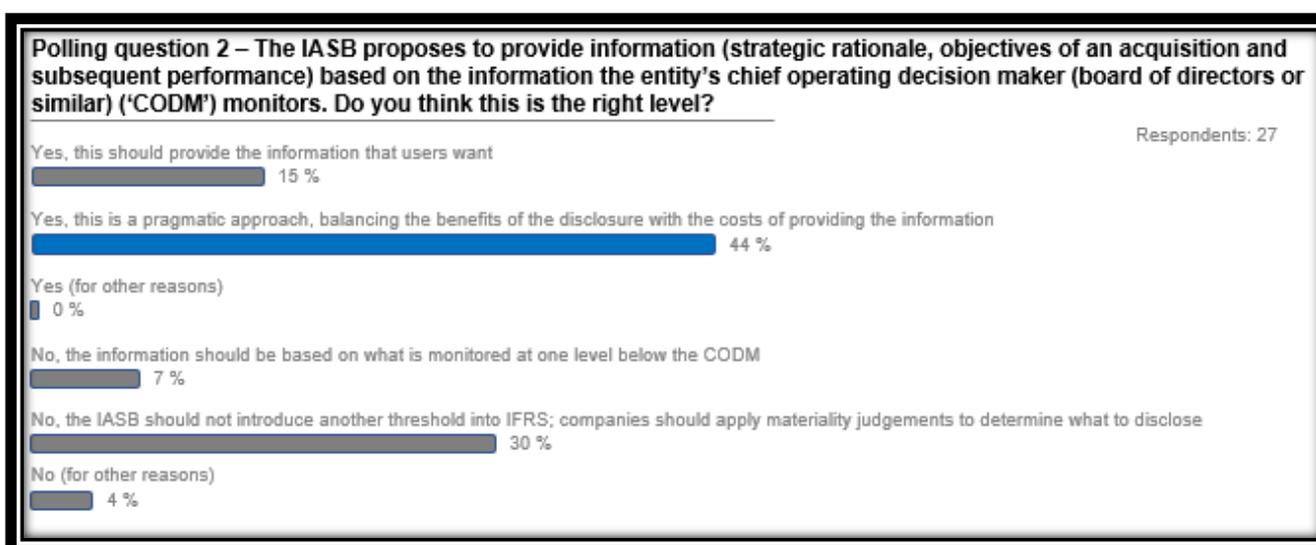
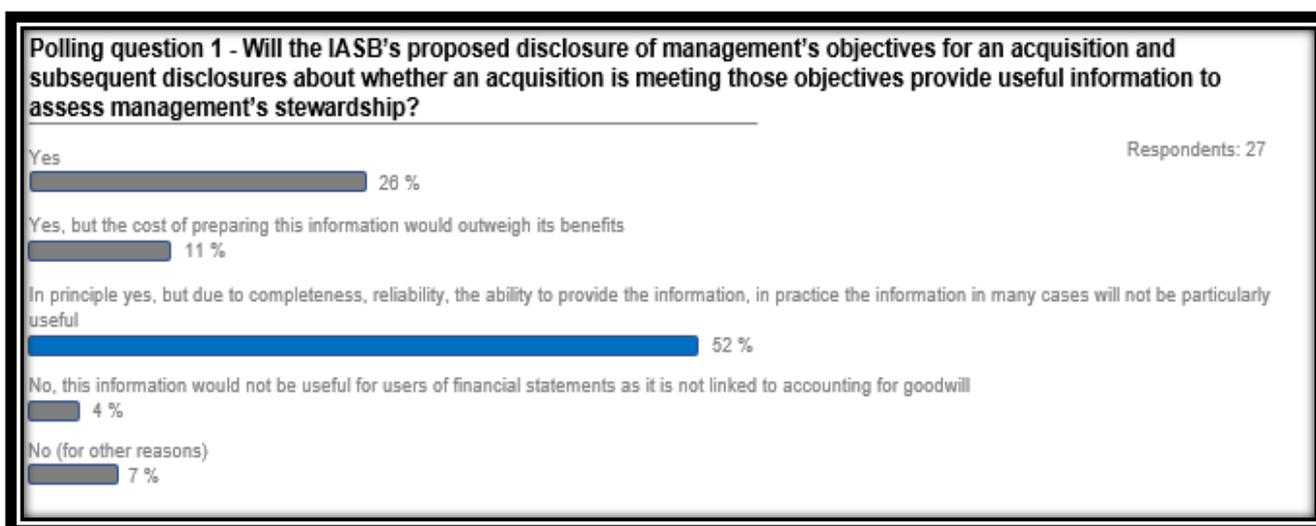
Audience question: *Many surveys have concluded that around 70 percent of all business combinations globally are not performing as expected. Do you expect these new disclosures to set spot on these challenges or is the real challenge how CGUs are defined or how goodwill is allocated?*

Tom Scott responded that feedback from fieldwork showed that companies were monitoring the performance of acquisitions. He added that it was rational to expect that acquisitions were monitored for a reasonable period of time especially when consideration paid was significant. Studies showed that in the long run, entities on average had a present value of zero – which was what they should have.

However, there was a big range of outcomes. Some did significantly better, some did significantly worse. It would be useful for investors to receive information on what acquisitions meant for the returns to shareholders.

Paolo Dragone added that the IASB expected a certain market discipline if the success of an important acquisition would not be monitored by the management of an entity. The IASB suggested that if an acquisition would not be monitored, this should be disclosed.

Chiara Del Prete questioned whether the two objectives of (1) understanding the performance of the business combinations, and (2) understanding the recoverability of the price paid for the goodwill could be combined. She did not think that these two objectives could be decoupled in this project. If research showed that 70% of all business combinations were not performing as expected, information on this would be price sensitive. She explained that the proposed disclosures would offer an anchor point for monitoring goodwill and determining the correct level of allocation of goodwill to cash generating units. She acknowledged that businesses were often integrated shortly after a business combination and continued being part of the combination of assets and liabilities of a CGU. She noted that it was important to understand how users would react to the proposed disclosures when an entity stopped monitoring the acquiree. She explained that initial feedback showed that users would consider it as a sort of implicit trigger for impairment of goodwill.



Rasmus Sommer responded to the request of the moderator to compare the results of the polling questions with previous webinars. He explained that the result of the polling question one was as expected and in line with EFRAG's preliminary position as presented in EFRAG's DCL. He continued that the result of polling question two was slightly different compared to the previous webinar where the

majority stated that the IASB should not introduce another threshold into IFRS Standards; companies should apply materiality judgments to determine what to disclose. He noted that the result of the second poll was not in line with EFRAG's preliminary view that the information should be monitored at one level below the CODM.

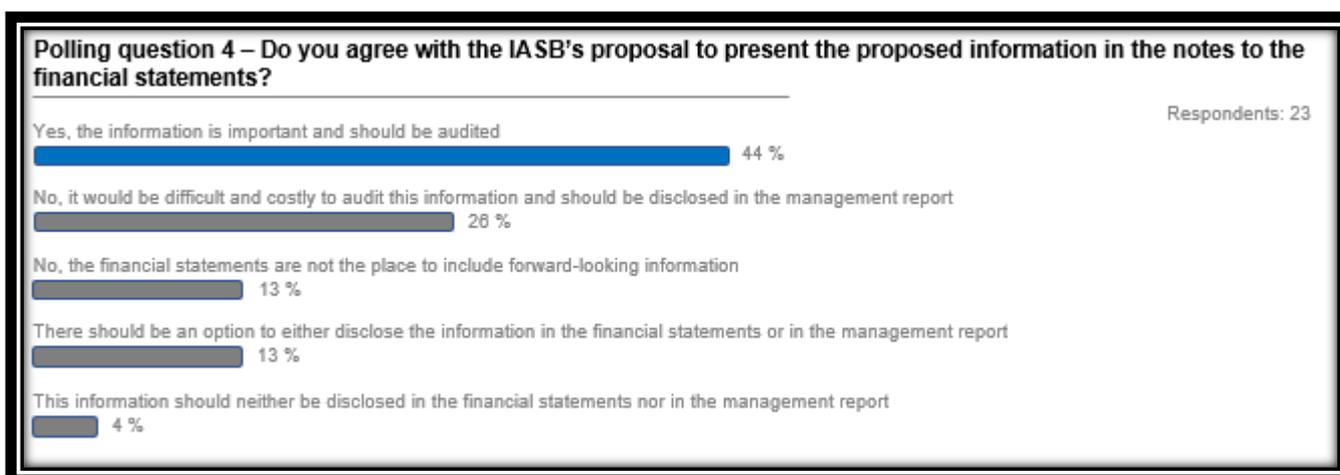
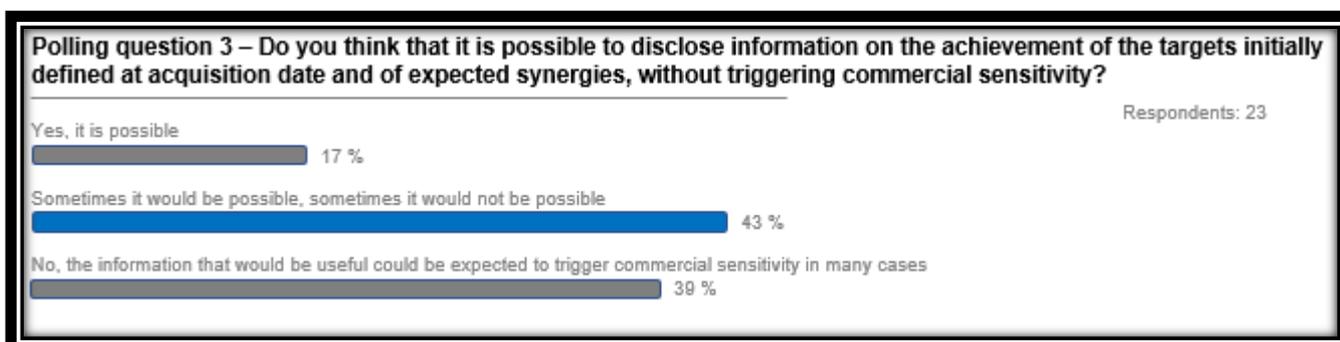
Paolo Dragone confirmed that the IASB was aware that introducing a different threshold would lead to different information to be disclosed.

Audience question: *Is it reasonable to monitor management's performance on a transaction level?*

Chiara Del Prete responded with an example based on feedback from preparers. She explained that sometimes when an acquisition was evaluated in isolation using the original targets, the conclusion can be that the acquisition had not been successful. However, over time additional value can emerge due to a change in the combination with CGUs and integration within the company. Therefore, in a subsequent period the business combination can still be a success without being measured against the initial KPI's.

Paolo Dragone added that the starting point of the IASB's project was based on investors' feedback where investors expressed the need for more information regarding the subsequent performance of a business combination to enable them to hold management accountable for their decisions. He added that the question was slightly outside the scope of the project.

Tom Scott agreed with the response of Chiara Del Prete pointing out that it was consistent with the current proposals in the DP. He explained that the proposed disclosures should be provided for two years. After the two years there would be no requirement to disclose any information if the entity would not monitor the acquisition. Also, if the entity would, after some time, change how it would measure the success of an acquisition, this was possible. In that case an entity just had to explain the change and the changed measures.



Jan Peter Larsen commented the results of the polling question 4 and noted that the second and third answer could be considered together. In that case, the number of respondents agreeing and

disagreeing with disclosing the information in the notes to the financial statements seem to be almost equal.

Tom Scott emphasised that the auditability was a critical part of the proposal. He argued that when it comes to the assumptions that are used to determine the price for an acquisition, he expected that extensive documentation explaining those assumptions would be available. This expectation was based on own observations and seemed reasonable especially when significant consideration has been paid. He pointed out that the starting point would not be management's expectations of the future, which could be challenging, but assumptions used to justify the consideration paid. He noted that in that case the auditability seemed achievable.

Topic 2: Impairment test

Presentation

Paolo Dragone presented the IASB's preliminary views on how to improve goodwill accounting by addressing the two main issues identified: cash flow forecasts that were too optimistic and shielding effect. He shared the IASB's preliminary views stating that if forecasts were too optimistic this was an implementation issue to be dealt with by auditors and regulators rather than by standard setting. He continued that it was not feasible to make the goodwill impairment test significantly more effective at reasonable cost. Therefore, the requirement to perform a quantitative impairment test annually should be removed, but companies would still be required to perform a qualitative assessment if any indicators of impairment exist. If yes – the quantitative test should then be performed.

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 still room for improvement, particularly on shielding. EFRAG proposed the IASB to review the goodwill allocation to CGUs by reducing the shielding effect with a more granular allocation. The rebuttable presumption that the CGU allocation level should be one level below operating segment level could be used. Also, EFRAG suggested to limit the possibility to reallocate the goodwill between CGUs unless there was an evidence of a change in the cash flow structure.

In addition, to overcome management's over-optimism, EFRAG proposed possible disclosure solutions for a better transparency of estimations made by management. EFRAG discussed different approaches and requests input from constituents on these proposals.

Kathrin Schoene also noted that EFRAG was seeking views from constituents on the reversal of goodwill impairment as the inability to reverse may play a role in delaying the impairments.

Finally, she expressed EFRAG's reservations about the IASB proposals to remove the requirement to perform an annual quantitative goodwill impairment test, as it would affect robustness of the test and could make it even less efficient.

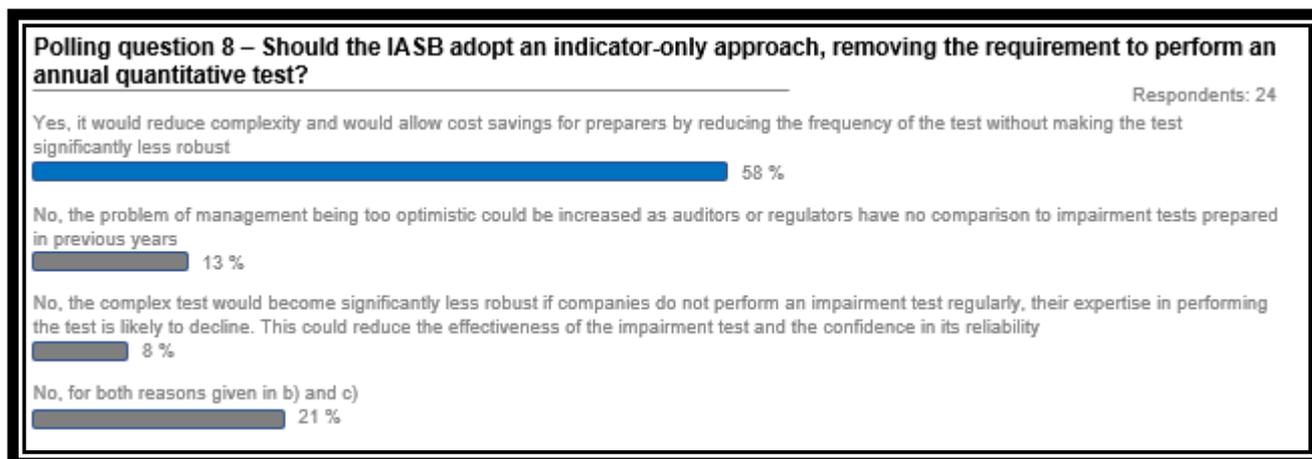
Discussion

Carsten Just Andersen noted that he was in favour of simplifying the impairment test. In his opinion, it was a mathematical and technical exercise performed by specialists and, therefore, time consuming and hard to explain to other people involved in the process, including auditors. He considered that there was much more value in focusing on describing the triggering events and discussing and sharing the management views on it in the annual report. In his opinion, it would provide more valuable information to users, and may reduce the workload for preparers. He suggested to introduce an already known model, like the one used for tangible and intangible assets, with impairment indicators, which would make goodwill impairment simple to explain and to implement.

Jan-Christian Nilsen, Danish Business Authority, noted that according to his experience the goodwill impairments were coming too late. He further noted that often the appointment of a new CEO triggered an impairment, although acknowledging that it could be due to a change in strategy following this appointment. He supported the IASB proposal to perform impairment test only when the indicators of impairment existed, because in this case the test was only done when it was relevant. In his opinion, such approach could also improve the quality of disclosures because if the impairment test were only

performed because it was mandatory, the disclosures may become boilerplate. He also noted that although it would be a good idea to permit reversals of goodwill impairment, he had hardly seen any reversals of tangible assets' impairments and none of intangible assets, although it was allowed to do so. Therefore, in his view, this possibility would not be used.

Chiara Del Prete indicated that often the impairment test was perceived by preparers as a costly compliance exercise which was detached from the management information. She noted that in EFRAG's view the requirement to perform an explicit calculation of the recoverable amount every year helped to ensure the robustness of the impairment test, which had to be maintained. She also indicated that users found impairment disclosures very useful when impairment test was done on an annual basis. Considering all these points, EFRAG concluded that switching to an indicator only approach would not be helpful as it will not remove the behavioural incentives and the management over-optimism issue.



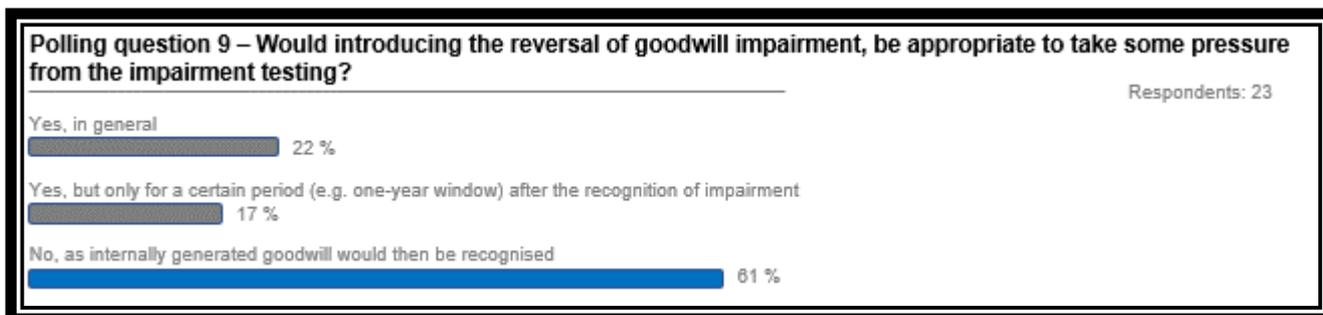
Jan Peter Larsen commented that if it were not feasible to design a more effective impairment test to tackle 'too little too late' problem then it would appear counter-intuitive to support the IASB proposal of the introduction of the indicator-only approach.

Tom Scott agreed with **Chiara Del Prete** and shared two pieces of evidence based on the US experience where the indicators' approach was already used for a while. The first was a study which indicated that entities in the US using the indicator-only approach were as likely to recognise impairments as those not using it, although his expectations were the opposite. The second was a survey on the cost of impairment testing conducted by Duff & Phelps which showed that the majority of respondents did a full-scale quantitative model every three years, to keep their models healthy. He considered that it would be very helpful to get feedback from users on how useful this information was.

Audience question: *Preparers may be reluctant to depreciate the value of the goodwill because it cannot be reversed, so they tend to postpone impairment. Should we allow the reversals of goodwill impairment?*

Paolo Dragone replied that the IASB received similar feedback from the outreaches. However, there was no evidence that the reversal of any impairment of intangible assets could provide a relief for preparers. At this stage of the project the IASB had no evidence or arguments to introduce the reversal of impairment of goodwill.

Chiara Del Prete explained that the reversal of impairment could mitigate the behavioural incentives and be particularly useful for impairments made in the interim periods or in particular situations of an acute period of stress. The possibility to make a reversal of impairment in such cases could be particularly appropriate.



Kristian Koktvedgaard indicated that there were many ways to calculate the impairment but that the impairment result was very dependent on the parameters used. He questioned whether it was possible to get away from large dependency of the impairment results on the parameters and management assumptions used or should they simply be disclosed to become more transparent. He also questioned if the impact of changes of management assumptions should be disclosed.

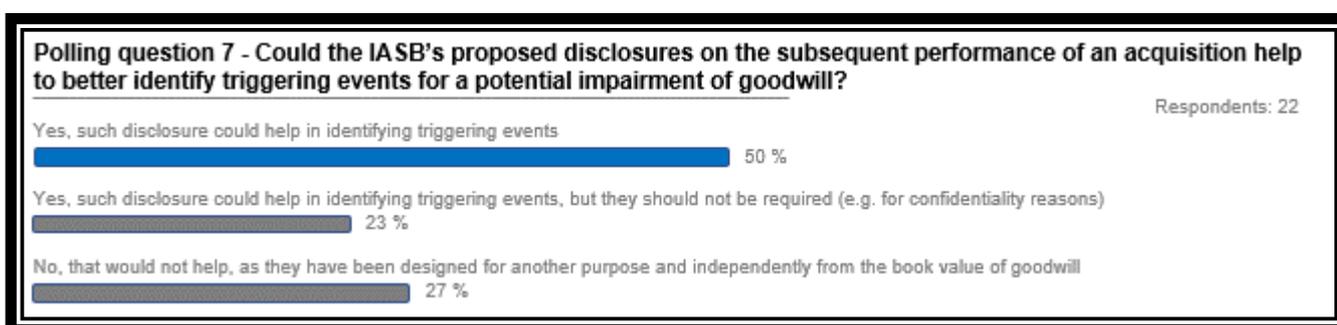
Paolo Dragone replied that the IASB did not discuss this question and that the impairment test should reflect the preparers' point of view. It is in the nature of the test to be subject to judgment. He noted that the IASB explored the headroom approach but did not receive much support.

Chiara Del Prete added that an indicator-only approach could put more focus on indicators than on the calculation of the test per se. She also noted that it was not less difficult to create a robust set of indicators that were suitable for several years. Another suggestion would be to use sensitivity analysis as part of the indicator-only approach, to determine whether there was enough headroom to conclude that the impairment was not required. EFRAG also recognised in its DCL that it was not necessary to perform an impairment test when it was obvious that there was no indication of impairment.

Jan Peter Larsen questioned whether more implementation guidance in performing the impairment test would help to address 'too little too late' issue.

Carsten Just Andersen replied that he was not sure that more guidance would be of help, he would rather go for simplification of the test itself.

Jan Peter Larsen agreed with **Carsten Just Andersen**. In his opinion, there was already a lot of guidance and he questioned whether more guidance was the answer. He acknowledged, however, the need to address the goodwill impairment issue, especially in the light of recent scandals where companies break down with large amounts of goodwill on the balance sheet.



Jan Peter Larsen noted that in his view the disclosures could only be required for material items and asked the IASB whether the polling question results reflected the expectations.

Paolo Dragone replied that the DP had tried to find a balance between the CODM approach and the materiality. The feedback received indicated that the different level at which goodwill was monitored compared to the CODM approach could trigger the regulators to enforce the allocation of goodwill at a lower level. This was a new topic and the IASB was analysing the consequences if these new rules would be proposed. He further indicated that the IASB had not discussed the impairment indicators so

far and that it would arguably be done if it will be decided to go ahead with the indicator-only approach. Some possible indicators could be the structure of allocation of goodwill among the CGUs or missing the targets of subsequent performance. The list of indicators should be reviewed because the current IAS 36 indicators were based on the assumption that the impairment test was performed annually.

Audience question: *Why did the IASB not suggest allocating goodwill to segments and test at that level rather than at a CGU level where there is no ability for users to engage with clear data compared to segments where there is strong analysis and debate? Would it mean shielding might be larger and make the use of indicators less contentious and difficult to audit?*

Tom Scott replied that there were arguments on both sides. Some preferred to have goodwill assigned to the smallest CGU possible to have a greater probability to catch an impairment quickly. He agreed that the more CGUs were aggregated the lesser was the chance that the impairment test fails, and impairment was recognised. On the other hand, the aggregation helped the users to better understand the information they got at a higher level. Therefore, some sort of trade-off was needed, and DP addressed it.

Kathrin Schoene commented that the shielding effect was larger if the test was performed on a higher level and that the cash generation should be the basis for the impairment testing. She noted that segment reporting sometimes did not go together with cash generation structure and therefore, it could be a good reason to do the impairment testing on another, lower, level. She referred to the rebuttable presumption that EFRAG suggested that the allocation of goodwill should be done at one level below the segment level. Such approach would still allow to test on segment level but would require explaining the reason for this.

Chiara Del Prete confirmed and stated that this proposal to test only on segment level exacerbates the shielding effect. She added that the IASB should look in addition at the guidance for reallocation of goodwill following a change in the reporting segment structure so that more discipline was put in place to avoid situations where reallocations were made only to avoid goodwill impairment. She also suggested that the IASB reviewed guidance for dealing with the derecognition of part of the goodwill when a CGU is sold. These proposals were put forward in EFRAG DCL.

Tom Scott replied that headroom approach would probably be the best avenue to have a more rigorous test, but this solution was not supported by the stakeholders. On the one hand people were worried about 'too little too late' issue but on other hand, they did not like the solution. He was keen to look at EFRAG's suggestions but considered that they would only make small improvements and would not fix 'too little too late' issue. He pointed out that there were people that were quite happy with the current test, and that as long as the complete set of assets were fully covered by the value-in-use it was fine. The solution would be to have an impairment test addressing goodwill directly, but many solutions were tried both by the IASB and EFRAG, which had not worked out and therefore the IASB considered that it cannot be done at a reasonable cost.

Polling question 6 – Which of the following would provide more discipline in relation to being overoptimistic by management while being feasible and practicable for preparers?

Respondents: 18

Disclose how actual cash flows differ from management's previous cash flow predictions (back-testing)

18 %

Improve information on assumptions related to the period for which management has projected cash flows and specifically about terminal value projections

25 %

Disclose the current level of cash flows to allow users to model themselves

0 %

All of above would provide more discipline while being feasible and practicable

18 %

None of the above are feasible and practicable for preparers of financial statements

38 %

Chiara Del Prete commented that it was interesting to see that there was some support for this proposal and that EFRAG would consider it.

Paolo Dragone commented that the IASB also received these suggestions from the stakeholders, but they received some pushback because of the increased costs for preparers.

Topic 3: Amortisation of goodwill

Presentation

Paolo Dragone 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 be still considered in conjunction with an impairment test. The IASB's preliminary conclusion, achieved by a narrow majority, was that the impairment-only approach should be retained as there was no compelling evidence that changing to amortisation model would result in a significant improvement. Therefore, the IASB would welcome any new arguments or evidence (or perhaps reasons why previous arguments were now more relevant) that would help to move forward on this topic.

Kathrin Schoene stated that EFRAG had not yet formed a view on the reintroduction of amortisation and similarly to the IASB, EFRAG TEG and the EFRAG Board had mixed views on the topic. Furthermore, views were split even between stakeholders from the same jurisdiction. She stated that, while it seems difficult to reach a conclusion on a conceptual basis, some argued that the reintroduction of amortisation would be a practical solution. Therefore, EFRAG was seeking views and had raised several questions to constituents in its DCL.

Discussion

Lone Bregendahl considered that the reintroduction of amortisation would ease preparers' life as they were spending a lot of time to perform an annual impairment test. She considered that it would reduce the effort spent by preparers and auditors and would ensure that potential impairment losses were recognised at least over time. However, in her opinion, going back to a straight-line amortisation would not provide an accurate picture about the performance of an acquisition and would not result in the elimination of the need of a neutral impairment assessment and of a goodwill impairment test. Furthermore, she considered that issues arising from this approach, such as determining the useful life of goodwill, would outweigh the benefits and would also obscure the comparability between financial statements. She then supported the IASB's preliminary decision to retain the impairment-only model rather than to reintroduce amortisation.

In her view, the current impairment test, despite being time consuming and highly complex, was working as intended. Furthermore, the current disclosure requirements provided valuable information on the key assumptions applied in the impairment test, including the sensitivity analysis, based on which the users can make their own assessments (i.e. growth and profitability assumptions applied to all the material

CGUs). She noted that recognising impairment losses would give more valuable information compared to a systematic amortisation.

She acknowledged that users were concerned that the carrying amount of goodwill may be overstated because management may tend to be overoptimistic with its assumptions, but she considered that the amortisation was a simplistic way to remove this risk.

She believed that goodwill was not a wasting asset with a finite useful life as companies heavily invested in maintaining of what was captured into goodwill, such as the know-how, workforce, etc. It then did not systematically decline over-time. Finally, she considered that an acquisition of a business normally assumed a going-concern premise and goodwill amortisation would not be in line with this assumption. She stated that she had no arguments in favour of amortisation, but she would be interested in hearing other points of view.

Kristian Koktvedgaard introduced the results of polling question 10 which showed that the 84% of respondents were in favour of the reintroduction of amortisation.

Polling question 10 – Are you in favour of reintroduction of amortisation of goodwill?

Respondents: 19

Yes, for conceptual reasons, as goodwill is (at least partially) a wasting asset and should reduce over time

 42 %

Yes, for practical reasons, because the current impairment testing model is not working amortisation should be reintroduced in order to reduce goodwill balances and to take the pressure off the impairment test and reduce costs

 42 %

No, for conceptual reasons, as the impairment model reflects the character of goodwill better and delivers more useful information for the users of financial statements

 16 %

No, as there is no sufficient evidence that a major change is needed

 0 %

Jan Peter Larsen commented that the current impairment model sometimes failed to work properly, as it happened in practice that companies broke down with a significant amount of goodwill still recorded on their balance sheets. The reintroduction of goodwill amortisation would take some pressure off the impairment test by reducing this risk. However, he recognised that there were no conceptually founded arguments in favour of amortisation and that he would welcome any new argument or evidence supporting such reintroduction.

Tom Scott commented on EFRAG's suggestion on a separation of goodwill into components, some of them potentially subject to amortisation (as wasting in nature) and some of them potentially retained under the impairment-only model (as non-wasting in nature). He heard from stakeholders that it could be very complex, costly, and subjective and that the discussion often boiled down to the nature of goodwill as a wasting or non-wasting asset. He noted that those in favour of amortisation would generally state that goodwill was a wasting asset, whilst those supporting the impairment-only model would generally state it was a non-wasting asset. It then went to an instinctive sense of what goodwill was conceptually. He expressed his agreement that there were elements of goodwill that looked wasting and others that looked long-lived. That was in his view the main reason for such a long discussion on subsequent accounting for goodwill, as there was not a definitive right answer to this question.

Chiara Del Prete commented on the relevance of the results of polling question 10, with specific reference to the significant portion of respondents that answered that the reintroduction of amortisation should be considered on the ground of practical reasons. She noted that it would be consistent with the fact that, even with no clear concept behind, there were components of goodwill that were wasting in nature. It would not neither put in question the overall impairment framework with major changes.

Closing of the event

Kristian Koktvedgaard thanked the IASB for the insights provided on the DP and the EFRAG representatives for stimulating the discussion. He also thanked the panellists from the Danish preparers and regulatory side for having provided their views. He encouraged the audience to comment on the DP as it would be harder to take into consideration any additional views once the process would have moved to an exposure draft phase.

Chiara Del Prete thanked the Confederation of Danish Industry, the Danish Auditors and the IASB for jointly organising the event. She highlighted that EFRAG was looking forward to receiving comment letters and reminded participants that there was still time to participate in the survey launched by EFRAG.

Tom Scott thanked all the parties organising and attending the event. He invited participants to provide the comments on the IASB DP and highlighted the importance to consider all the proposals as a package, as the topics were interrelated.

The meeting was closed.

Appendix – Other audience questions/comments not discussed during the outreach¹

<p>Basically, goodwill over time will be replaced by "own" goodwill and therefore will conflict with the constraint to capitalise own goodwill. Amortisation will make more sense. What is your view relating to the requirement to disclose about performance, while MD&A would be more appropriate?</p>
<p>Do you think it is feasible for preparers to provide the estimated amount or range of amounts of synergies (e.g. in terms of costs and capacity to provide the information)?</p>
<p>The horizon considered in the DP is quite short to disclose the performance of an acquisition (during the first 2 years). Acquirers require time to perform the changes necessary to integrate the acquiree in order to fulfill the objectives set and create the synergies expected. So, I question the relevance for the shareholders of the information disclosed.</p>
<p>There will always be an information gap between preparer and user due to the sensitivity of information leading to risk for misinformation due to the lack of validation of information.</p>
<p>Many of the proposed information will be non-GAAP measures including non-financial information with no framework or pre-defined definitions. Therefore, they will not be possible to audit. How do you define synergies?</p>
<p>Preparers may be reluctant to depreciate the value of the goodwill because it cannot be reversed at the time the CGU gives the expected results. So, they postpone the depreciation. If we had the opportunity to reverse it, maybe the optimistic effect of cash flow estimates will be lowered.</p>
<p>What about giving an option to preparers of financial statements to amortise it as long as preparers demonstrate it will be "consumed" over a certain period of time?</p>
<p>Why did you not ask a question, whether goodwill should be amortised in order to measure the performance of the investment, i.e. it is a cost of investment as any other investment cost?</p>
<p>The lifecycle period of many businesses has decreased significantly over the last 10-15 years and since goodwill was amortised back in 2004. A very good argument for a reintroduction of amortisation and that the goodwill is a wasting asset.</p>

¹ Contributions may have been edited for length or clarity.