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Goodwill and Impairment – Draft comment letter

Cover Note

Objective

- 1 EFRAG TEG approved on 8 April 2020 the draft comment letter ('DCL') in response to the IASB Discussion Paper *2020/1 Business Combinations—Disclosures, Goodwill and Impairment* issued on 19 March 2020 (the 'DP'). The objective of this session is to inform EFRAG TEG members on EFRAG Board members' comments and suggested wording changes (made at its 21 April Webcast meeting) to the DCL.

Background on the DCL

- 2 The IASB published the [DP](#) on 19 March 2020.
- 3 Before the issuance of the DP, EFRAG Secretariat obtained by the EFRAG Board the Board's directions to be followed when preparing the draft EFRAG position in the DCL. Those directions were pre-agreed with EFRAG TEG and were built on the basis of the publicly available contents of the IASB tentative decisions at that date.
- 4 The DP is exposing for comments a set of disclosure proposal (questions 2 to 5 of the DP) that were not previously discussed by the IASB and, as a consequence, for which it was not possible to obtain the EFRAG's Board directions in preparation of the DCL.
- 5 **EFRAG TEG** discussed in the webcast meeting on **26 March** an extracted draft comment letter that included the drafting proposed by EFRAG Secretariat for questions 2 to 10 of the DP. During the meeting only questions 2 to 6 were covered. EFRAG TEG members were invited to provide their written input on the questions that were included in the initial version of the DCL but were not discussed at the meeting due to time constraints (Questions 7 to 10).
- 6 With reference to the disclosure proposals (Questions 2 to 5) EFRAG TEG's comments and proposed wording changes agreed during the 26 March Webcast meeting were further considered in a discussion with **EFRAG User Panel**, at its **1 April 2020** Webcast meeting. User Panel members provided also input to the initial drafting by the EFRAG Secretariat of Question 12 (separation of Intangible assets).
- 7 **EFRAG TEG** members discussed in its **6-8 April 2020 Webcast meeting** the amended version of EFRAG's DCL according with the input received from them in its 26 March TEG Webcast meeting and with the feedback provided by User Panel members in its 1 April Webcast meeting. EFRAG TEG proposed some drafting changes and recommended the DCL to its approval by EFRAG Board.

- 8 **EFRAG Board** discussed in its **21 April 2020 Webcast meeting** the drafted version of the DCL recommended by the EFRAG TEG. Due the time-constraints EFRAG Board discussed question 2-5 and questions 6, 11 and 14. The rest of the questions of the DCL will be discussed by EFRAG Board at an additional meeting in May 2020. EFRAG Board tentatively agreed with EFRAG TEG's direction taken in questions 6, 11 and 14. However EFRAG Board made the following comments to question 2-5:
- (a) They noted that the DCL recommended by TEG was supportive of the IASB's proposal. Some members expressed caution in providing this support, as they considered that the proposed disclosure would be based on management expectations and have substantially a non-GAAP nature. They indicated concerns, including whether it is practical and appropriate to require non-GAAP information in the financial statements.
 - (b) They suggested to include a question to constituents on whether the proposed information should be included in the notes to the financial statements or in the management commentary. This would provide more emphasis as well to the issue of auditability and practicability of these information.
 - (c) Pending the consultation on the DCL, they suggested to adopt a neutral approach to IASB's proposals, softening the support expressed in the drafted wording, but at the same time showing openness to the proposed requirements.
 - (d) Finally, they considered that a possible proposal of narrative information about the reasons and performance of an investment realised through an acquisition would be of value not only for the investments done for external growth, but also for internal investments.
- 9 The EFRAG Secretariat has considered EFRAG Board's comments regarding questions 2 – 5 and have included them in EFRAG's DCL (see agenda paper 07-02).
- 10 The comments obtained in this EFRAG TEG discussion will be reported back to the EFRAG Board in the session dedicated to the discussion and approval of the DCL.

Questions for EFRAG Board

- 11 Does EFRAG TEG have any comment on the proposed wording changes of the DCL to questions 2 – 5 made by EFRAG Board as drafted in agenda paper 07-02?

Agenda Papers

- 12 In addition to this cover note, the following papers have been provided for this session:
- (a) Agenda paper 07-02 – Proposed wording to question 2-5 of EFRAG DCL on the DP (track-changed version); and
 - (b) Agenda paper 07-03 – Proposed wording to question 2-5 of EFRAG DCL on the DP (clean version).