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Business Combinations: Disclosures, Goodwill and Impairment Cover Note

Objective

- 1 The objectives of the session are to:
 - (a) consider the feedback received in response to [EFRAG's draft comment letter on the IASB Discussion Paper DP/2020/1 Business Combinations: Disclosures, Goodwill and Impairment](#), issued by the IASB on 19 March 2020 (the 'DP'); and
 - (b) approve EFRAG final comment letter on the DP.

Background

- 2 The objective of the DP is to explore whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make. Topics considered include disclosures about acquisitions, subsequent accounting for goodwill and inclusion of some intangibles as part of goodwill.
- 3 On 29 May 2020, EFRAG published its draft comment letter in response to the DP and supported the objective to explore whether companies can, at a reasonable cost, provide investors with more useful information about their acquisitions.

Outreach activities on the DP

- 4 EFRAG has engaged in various outreach activities to ensure getting responses from as wide a range of constituents as possible. Activities concluded include the following:
 - (a) Field test with four preparers (conducted by the IASB with the EFRAG Secretariat as observers);
 - (b) Results of 30 surveys completed by preparers;
 - (c) Interviews with 14 preparers as an alternative or in addition to filling out the surveys issued by EFRAG;
 - (d) Feedback from members of EFRAG Working Groups: EFRAG API, User Panel, EFRAG FIWG, EFRAG IAWG and CFSS;
 - (e) Presentations at closed meetings with national standard setters or with industry or user organisations including:
 - (i) Accountancy Europe;
 - (ii) The Corporate Reporting Users' Forum (CRUF);
 - (iii) French Standard Setter (ANC);
 - (iv) European Federation of Financial Analysts Societies;

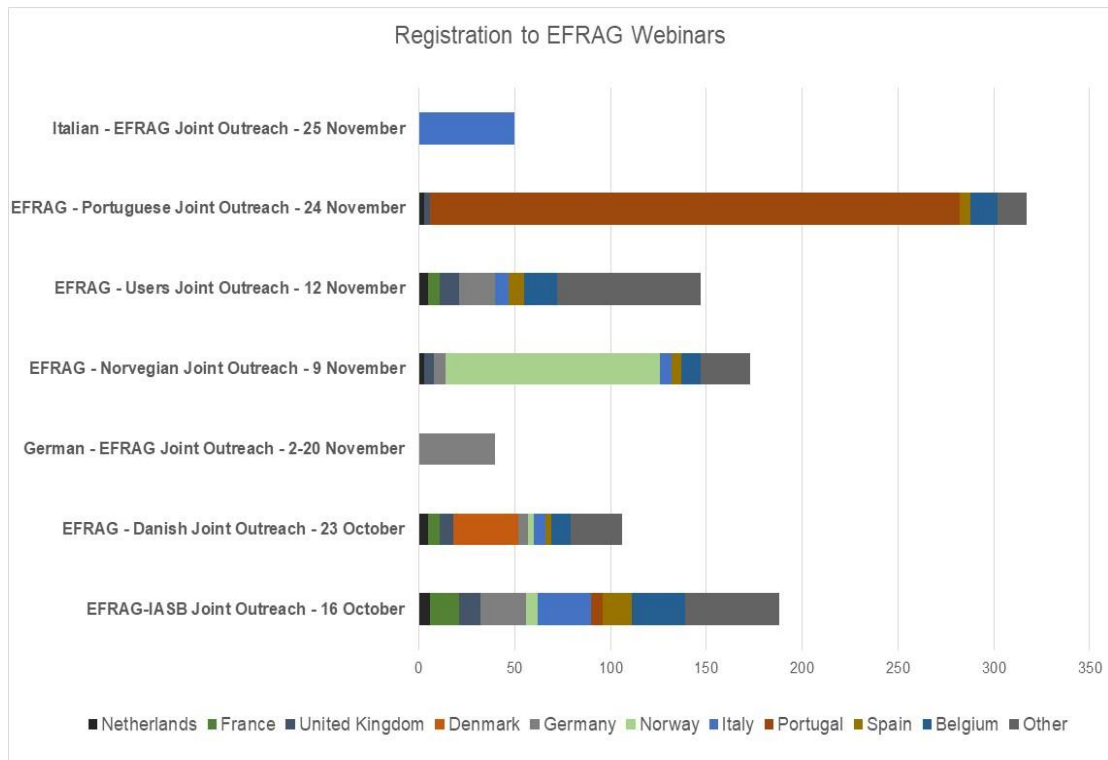
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- (v) European Pharmaceutical Companies;
 - (vi) The Institute of Spanish Analysts (IEAF);
 - (vii) 18th Annual International Financial Reporting & Compliance Summit (Financial Institutions).
- (f) In addition, eight webinars with a total of around 700 live participants (approximately 1,000 registered participants) were held jointly with the IASB and a variety of standard setters and organisations.

Date	Event	Live Participants
16 October	<i>Improving information regarding business combinations and subsequent accounting for goodwill – Which Way to Go?</i> Jointly hosted by EFRAG and the IASB.	127
23 October	<i>Joint outreach event on Business Combinations: Disclosures, Goodwill and Impairment.</i> Jointly hosted by EFRAG, the IASB and FSR – Danish Auditors & DI Confederation of Danish Industry.	68
2 November	<i>Joint outreach event on Business Combinations: Disclosures, Goodwill and Impairment.</i> Jointly hosted by EFRAG, the ASCG and the IASB.	20
9 November	<i>Changes to the accounting for Business Combinations: Disclosures, Goodwill and Impairment: Reflections from Norway.</i> Jointly hosted by EFRAG, the NASB, the NFF and the IASB.	110
12 November	<i>What are the views of users? Business Combinations: Disclosures, Goodwill and Impairment.</i> Jointly hosted by EFRAG, EFFAS, ABAF/BVFA and the IASB.	76
20 November	<i>Joint outreach event on Business Combinations: Disclosures, Goodwill and Impairment.</i> Jointly hosted by EFRAG, the ASCG and the IASB.	20
24 November	<i>Changes to the accounting for Business Combinations: Disclosures, Goodwill and Impairment: Perspectives from Portugal.</i> Jointly hosted by EFRAG, OROC, the OCC, the CNC and the IASB.	224
25 November	<i>Business Combinations: Disclosures, Goodwill and Impairment.</i> Jointly hosted by EFRAG, the OIC and the IASB.	50

- 5 Two of the webinars were held in German and one in Italian. The geographical coverage of the registered participants to the webinars is presented below based on registered participants:

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- 6 A comprehensive overview of the feedback received during outreach activities is set out in agenda paper 02-06.

Comment letters received

- 7 At the time of writing, EFRAG received 30 comment letters, which have been uploaded into EFRAG's website. Four of the comment letters are received after the EFRAG TEG meeting held on 16 December 2020. These four comment letters are not considered in the comment letter analysis. The EFRAG comment letter analysis can be found in agenda paper 02-05. The links to the comment letters are provided in the appendix included in this cover note. These comment letters can also be found on EFRAG's website.

EFRAG TEG discussion and advice to the EFRAG Board

- 8 EFRAG's initial position and suggested changes based on the feedback received during outreach events and comment letters received are set out in agenda paper 02-04.
- 9 At its meetings on 23 September, 10 November, 3 and 16 December 2020, EFRAG TEG reviewed the feedback received in response to EFRAG's draft comment letter and considered the final comment letter to be recommended to the EFRAG Board.
- 10 On 16 December 2020, EFRAG TEG voted and recommended a final comment letter, which is in agenda paper 02-03 in relation to all the questions in the DP, except of Question 7 which relates to the subsequent accounting of goodwill.
- 11 The EFRAG Secretariat presented two options to EFRAG TEG on Question 7 which implicitly also includes an option three:
- (a) Option 1: Improve impairment testing and if not possible to improve the impairment test at reasonable cost – reintroduce amortisation;
 - (b) Option 2: Reintroduce amortisation; and
 - (c) Option 3 (implicit): Keep current impairment test.
- 12 Given the mixed views of its members, EFRAG TEG unanimously decided to leave the decision on Question 7 of the DP to the EFRAG Board.

- 13 EFRAG TEG votes during the meeting on 16 December 2020 were as follows:
- (a) Chiara del Prete (in writing); Nicklas Grip; Ambrogio Virgilio; Jens Berger; Jenny Carter; Ana Cortez; Emmanuelle Guyomard; Erlend Kvaal; Vincent Louis; David Procházka; Christoph Schauerte; Olivier Scherer; Ambrogio Virgilio and Jed Wrigley.
 - (b) The following EFRAG TEG members were absent: Tommaso Fabi and Geert Ewalts.
 - (c) On the Question 7, the following EFRAG TEG members supported the Option 2 - Reintroduction of amortisation: Chiara del Prete (in writing); Jens Berger; Jenny Carter; Ana Cortez; Geert Ewalts (in writing); Tommaso Fabi (in writing), Erlend Kvaal and David Procházka.
 - (d) Ambrogio Virgilio, did not express a preference for Option 2 or Option 1 and considered both an acceptable solution.
 - (e) Three EFRAG TEG members were in favour of Option 1, to try to improve the impairment test and if not possible – to reintroduce amortisation: Christoph Schauerte; Olivier Scherer and Nicklas Grip.
 - (f) Vincent Louis and Emmanuelle Guyomard were in favour of Option 3 To keep the existing impairment test subject to improvements.
 - (g) Jed Wrigley was not in favour of Option 1 or Option 2 and proposed impairment-only approach for the first 5 years after the acquisition followed by subsequent write-off of goodwill through OCI.

Questions for EFRAG Board

- 14 In relation to Question 7 (subsequent accounting for goodwill), which accounting option does EFRAG Board consider appropriate for EFRAG's comment letter to the IASB?
- 15 Does EFRAG Board approve the EFRAG comment letter to the IASB?

Agenda Papers

- 16 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 02-02 BCDGI – Issues paper on Question 7: Impairment-only versus amortisation of goodwill – EFRAG Board 21-01-14;
 - (b) Agenda paper 02-03 BCDGI – Proposed final comment letter – EFRAG Board 21-01-14;
 - (c) Agenda paper 02-03A BCDGI – Proposed final comment letter – tracked changes from the draft comment letter – EFRAG Board 21-01-14;
 - (d) Agenda paper 02-04 BCDGI – Issues paper on suggested changes to EFRAG's DCL – EFRAG Board 21-01-14;
 - (e) Agenda paper 02-05 BCDGI – Comment letter analysis – EFRAG Board 21-01-14;
 - (f) Agenda paper 02-06 BCDGI – Issues paper updating feedback received during outreach activities relating to DCL on DP – EFRAG Board 21-01-14 (provided as background paper); and
 - (g) Agenda paper 02-06A BCDGI – Issues paper updating feedback received during outreach activities relating to DCL on DP (tracked changes version) – EFRAG Board 21-01-14 (provided as background paper).
- 17 The following summary reports have been provided to the EFRAG Board previously and therefore only links to these reports are provided (for background only):

- (a) [Improving information regarding Business Combinations and subsequent accounting for goodwill – which way to go?](#) Webinar, 16 October 2020;
- (b) [Business Combinations: Disclosure, Goodwill and Impairment.](#) Webinar, 23 October 2020;
- (c) [Changes to the accounting for Business Combinations: Disclosures Goodwill and Impairment: Reflections from Norway.](#) Webinar, 9 November 2020;
- (d) [What are the views of users? Business Combinations: Disclosures, Goodwill and Impairment.](#) Webinar, 12 November 2020; and
- (e) [Business Combinations: Disclosure, Goodwill and Impairment – perspectives from Portugal.](#) Webinar, 24 November 2020.

Appendix 1: Comment letters received

[CL001 - ESG - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL002 - UniCredit - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL003 - Accountancy Europe - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL004 - BNPP - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL005 - Insurance Europe-CFO Forum - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL006 - ICAC - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL007 - CNC - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL008 - EFFAS - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL009 - DASC - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL010 - SFRB - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL011 - ABAF-BVFA - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL012 - ANC - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL013 - AFRAC - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL014 - DASB - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL015 - ESMA - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL016 - CRUF - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL017 - EACB - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL018 - ACTEO-AFEP-MEDEF - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL019 - AFME - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL020 - OIC - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL021 - GDV - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL022 - Allianz - EFRAG DCL on IASB DP 2020-1 \(received after the EFRAG TEG meeting held on 16 December 2020\).pdf](#)
[CL023 - NASB - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL024 - IEAF - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL025 - DRSC - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL026 - SEAG - EFRAG DCL on IASB DP 2020-1 \(received after the EFRAG TEG meeting held on 16 December 2020\).pdf](#)
[CL027 - ICAEW - EFRAG DCL on IASB DP 2020-1.pdf](#)
[CL028 - Vivendi - EFRAG DCL on IASB DP 2020-1 \(received after the EFRAG TEG meeting held on 16 December 2020\).pdf](#)
[CL029 - SFAF - EFRAG DCL on IASB DP 2020-1 \(received after the EFRAG TEG meeting held on 16 December 2020\).pdf](#)
[CL030 - Business Europe - EFRAG DCL on IASB DP 2020-1.pdf](#)