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## Goodwill and Impairment - Project Update

### Cover note

#### Objective

- 1 The objective of the session is to provide EFRAG FR TEG members with an update on the status of the IASB *Goodwill and Impairment* project (currently named *Business Combinations – Disclosures, Goodwill and Impairment*). The update will focus on the following IASB tentative decisions:
  - (a) subsequent accounting for goodwill (including whether to reintroduce amortisation of goodwill) – IASB tentative decisions taken in November 2022;
  - (b) identifiable intangible assets acquired in a business combination, total equity excluding goodwill, and other topics – IASB tentative decisions taken in December 2022.
- 2 EFRAG FR TEG members will be asked for their views on these IASB tentative decisions.

#### Moving to the standard-setting agenda

- 3 In December 2022, the IASB decided:
  - (a) to add the project to the standard-setting work plan; and
  - (b) to change the project title to *Business Combinations—Disclosures, Goodwill and Impairment*.

#### The IASB next steps

- 4 A summary of the IASB tentative decisions taken so far is provided in the Appendix.
- 5 In the coming months in 2023, the IASB will discuss:
  - (a) detailed aspects of the package of disclosure requirements—for example:
    - (i) details of the exemption the IASB tentatively decided on in its September 2022 meeting;
    - (ii) the level of aggregation at which entities would disclose information about expected synergies;
    - (iii) the management approach to information about subsequent performance of business combinations including for example, whether it is appropriate to identify the information to be disclosed using the information an entity's Chief Operating Decision Maker reviews;
    - (iv) the length of time for which to require entities to disclose information about the subsequent performance of business combinations;

- (v) other aspects – for example the scope of entities subject to the disclosure requirements about the subsequent performance of business combinations.
  - (b) The IASB’s preliminary views on simplifying the application of the impairment test in IAS 36 Impairment of Assets.
  - (c) The IASB’s preliminary views, including two added topics [see paper 08-03 paragraph 26], on the feasibility of improving the effectiveness of the impairment test of cash-generating units containing goodwill in IAS 36.
- 6 Once the IASB has made tentative decisions on all aspects of the project, the IASB staff will ask the IASB whether the package as a whole meets the project objective and whether it would like to publish an exposure draft setting out its proposals.

**EFRAG next steps**

- 7 The EFRAG Secretariat will continue to monitor and update EFRAG FR TEG on a regular basis.
- 8 The EFRAG Secretariat is planning to undertake outreach in early 2023 to test the thresholds for determining a subset of business combinations of what would comprise a ‘strategically important’ business combination.
- 9 The EFRAG Secretariat will also undertake outreach to better understand the application and level of aggregation of the exemption from disclosing information in specific circumstances once more details and the wording of the exemption are known.

**Agenda papers**

- 10 In addition to this cover note, agenda papers for this session are:
  - (a) Agenda paper 08-02 – Issues paper on subsequent accounting for goodwill; and
  - (b) Agenda paper 08-03 – Issues paper on other topics.

**Question for EFRAG FR TEG**

- 11 Does EFRAG FR TEG have any comments on the next steps (IASB and EFRAG)?

## Appendix – IASB tentative decisions so far

### Summary of the IASB tentative decisions

1 The table below provides an overview of IASB discussions and tentative decisions so far.

Topic	Decisions reached	Meeting Date
<i>Feedback received on DP</i>	<p>In March 2021, the IASB discussed a summary of the feedback received on its preliminary views expressed in the DP.</p> <p>In April 2021, the IASB received a summary that focused only on <b>user feedback</b>.</p> <p>In May 2021, the IASB discussed a <b>literature review</b> that summarised the evidence from academic papers on topics relevant to the questions in the DP. The literature review was based on an academic literature review that provides an overview of academic papers on empirical goodwill research published in the last 20 years, published articles and other academic material.</p>	March - May 2021
<i>Objective of the project</i>	<p>The IASB tentatively decided to retain the objective of the project unchanged from that described in its DP. The objective is to explore whether entities can, at a reasonable cost, provide users with more useful information about the acquisitions those entities make.</p> <p>The IASB also tentatively decided to make no changes to the project scope. The IASB considers its preliminary views as a package that meets the project objective.</p>	June 2021
<i>Project plan</i>	<p>The IASB decided on a project plan. As part of that project plan the IASB is prioritising analysis of feedback on:</p> <ul style="list-style-type: none"> <li>• disclosures about business combinations; and</li> <li>• whether to retain the impairment-only model or whether to reintroduce amortisation for goodwill (the subsequent accounting for goodwill).</li> </ul> <p>The IASB staff sent a request to <b>IFASS</b> members asking for information on how goodwill is accounted for under local GAAP and views on the estimation of goodwill useful lives and possible challenges on transition should amortisation be reintroduced</p>	September 2021
<i>Location of information</i>	<p>The IASB tentatively decided that, based on the <i>Conceptual Framework for Financial Reporting</i>, information can be required in financial statements about the benefits an entity's management expects from a business combination and the extent to which management's objectives are being met.</p> <p>The IASB discussed practical concerns over requiring entities to include such information in financial</p>	October 2021

	<p>statements. In particular, the IASB discussed the staff's additional research and analysis of concerns over requiring entities to disclose information that might be considered forward-looking in some jurisdictions.</p> <p>The IASB will continue its redeliberations on its preliminary views on the package of disclosure requirements at future meetings, including whether not to proceed with some or all of the disclosure requirements for practical reasons.</p>	
<p><i>Expected synergies arising from a business combination</i></p> <p><i>Contribution of the acquired business</i></p> <p><i>Liabilities arising from financing activities and defined benefit pension liabilities</i></p>	<p><i>Expected synergies</i></p> <p>To better the practical concerns raised by respondents, the IASB, will test examples with stakeholders that illustrate disclosure of information about:</p> <ul style="list-style-type: none"> <li>• total expected synergies disaggregated by nature; for example, total revenue, total cost and totals for other types of synergies; and</li> <li>• when the benefits expected from the synergies are expected to start and how long they will last (which would require an entity to identify whether those synergies are expected to be one-off or recurring).</li> </ul> <p>The IASB also tentatively decided:</p> <ul style="list-style-type: none"> <li>• not to define 'synergies'.</li> <li>• not to make changes to its preliminary view as a result of feedback on other specific aspects of its preliminary view.</li> </ul> <p><i>Contribution of the acquired business</i></p> <p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> <li>• to retain the requirement in paragraph B64(q) of IFRS 3.</li> <li>• to explain the objective of the requirement in paragraph B64(q)(ii) of IFRS 3 but not to provide guidance on how the information required by paragraph B64(q)(ii) should be prepared.</li> </ul> <p>The IASB tentatively decided to specify in paragraph B64(q)(ii) of IFRS 3 that the basis that an entity applies in preparing the information required by that paragraph is an accounting policy.</p> <p>The IASB tentatively decided to replace the term 'profit or loss' in paragraph B64(q) of IFRS 3 with 'operating profit or loss'. 'Operating profit or loss' will be as defined in the IASB's project on Primary Financial Statements.</p> <p>The IASB tentatively decided not to add a requirement to disclose information about cash flows arising from operating activities.</p>	<p>November 2021</p>



<p><i>Improvements to existing IFRS 3 disclosure requirements</i></p>	<p>At its meeting in September 2022, the IASB also tentatively decided:</p> <ul style="list-style-type: none"> <li>• adding the disclosure objectives described in the Discussion Paper to IFRS 3;</li> <li>• adding to IFRS 3 a requirement for an entity to disclose in the year of a business combination quantitative information about expected synergies; and</li> <li>• providing an exemption from disclosing that information in specific circumstances.</li> </ul>	
<p><i>Subsequent accounting for goodwill</i></p>	<p>At its May 2022 meeting, the IASB discussed additional research on:</p> <ul style="list-style-type: none"> <li>• whether it is feasible to estimate the useful life of goodwill and the pattern in which it diminishes; and</li> <li>• the potential consequences of transitioning to an amortisation-based model.</li> </ul> <hr/> <p>In July 2022, the IASB redeliberated its preliminary views on the subsequent accounting for goodwill and whether to reintroduce amortisation of goodwill and discussed disclosures about business combinations and improving the effectiveness of the impairment test in IAS 36.</p> <p>The IASB had a joint meeting with the FASB (education purposes) where both boards discussed various aspects of their respective projects on goodwill and impairment and their tentative decisions (these projects do not constitute a joint project).</p> <hr/> <p>At its October 2022 meeting, the IASB discussed the following:</p> <ul style="list-style-type: none"> <li>• Subsequent accounting for goodwill – Overview of feedback and research; and</li> <li>• Subsequent accounting for goodwill – Possible ways forward.</li> </ul> <hr/> <p>At its meeting in November 2022, the IASB tentatively decided to maintain its preliminary view to retain the impairment-only model for the subsequent accounting for goodwill.</p>	<p>May 2022</p> <p>July 2022</p> <p>October 2022</p> <p>November 2022</p>
<p><i>Identifiable intangible assets acquired in a business combination</i></p>	<p>The IASB tentatively decided to maintain its preliminary view and therefore to make no changes to the recognition criteria in IFRS 3 Business Combinations for identifiable intangible assets acquired in a business combination.</p>	<p>December 2022</p>
<p><i>Total equity excluding goodwill</i></p>	<p>The IASB tentatively decided against proceeding with its preliminary view and therefore tentatively decided not to require an entity to present the amount of total</p>	<p>December 2022</p>

	equity excluding goodwill as a separate line item on its statement of financial position.	
<i>Other topics</i>	<p>The IASB decided not to consider additional topics suggested by respondents in this project, except for the following two topics related to possible improvements to the effectiveness of the impairment test of cash-generating units containing goodwill:</p> <ul style="list-style-type: none"> <li>• requiring an entity to disclose goodwill by reportable segment; and</li> <li>• how the requirements in IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> relating to the level at which goodwill balances are translated interacts with the level at which goodwill is tested for impairment applying IAS 36 <i>Impairment of Assets</i>.</li> </ul>	December 2022