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Business Combinations – Disclosures, Goodwill and Impairment Cover Note

Objective

- 1 The objective of this session is to:
 - (a) Provide EFRAG TEG and EFRAG CFSS with an overview of the comments the IASB received in response to its discussion paper [Business Combinations – Disclosures, Goodwill and Impairment](#) ('the DP').
 - (b) Provide EFRAG TEG and EFRAG CFSS with an update on how the IASB's discussions on the next steps of the project.
 - (c) Receive EFRAG TEG and EFRAG CFSS input for the questions the IASB will raise at the June 2021 ASAF meeting. This is:
 - (i) whether there are key pieces of feedback or considerations it does not seem that the IASB will take into account that it should take into account during its redeliberation;
 - (ii) how to consider convergence with US GAAP.

Background of the IASB project

- 2 The IASB has started this project as a response to the concerns identified during the IASB's post-implementation review of IFRS 3 *Business Combinations* related to the timeliness and effectiveness of the current annual impairment test.
- 3 In March 2020, the IASB published the DP including the IASB's preliminary views on how to address stakeholders' concerns. The DP included suggestions on improving the disclosures about business acquisitions by adding the information about its subsequent performance and objectives; including information about synergies; improving the accounting for goodwill by assessing whether the amortisation should be reintroduced and some other targeted improvements/simplifications to the current impairment test including the suggestion to only require a quantitative impairment test of CGUs including goodwill to be performed when there would be an indication of an impairment.
- 4 The IASB comment period ended in December 2020 and now the IASB has prepared the analysis of the feedback received for which a summary is presented in Paper 11-02 for this session.

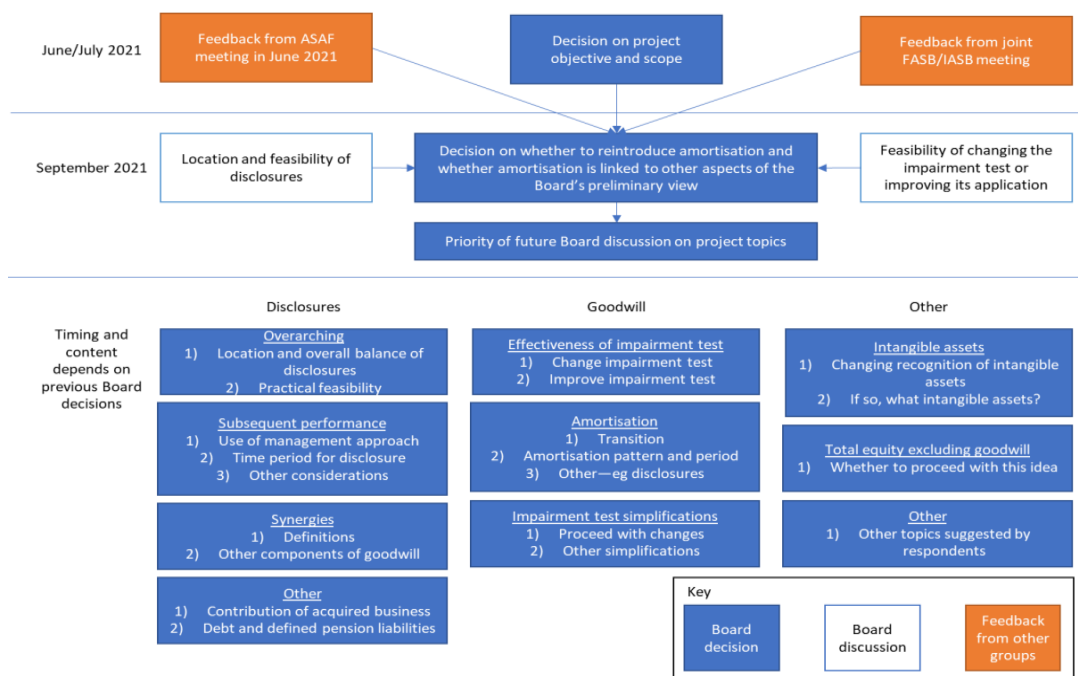
EFRAG position in its comment letter

- 5 To respond to the IASB DP, EFRAG had several discussions with its working groups, and has conducted an extensive outreach activities with its constituents to inform its [final comment letter](#) published in January 2021.

- 6 In the letter, EFRAG supported the IASB objective to explore whether companies can, at a reasonable cost provide investors with more useful information about acquisitions and address some practical aspects from such requirements like commercial sensitivity and placement of information. EFRAG noted that there was room for improvement in goodwill accounting.
- 7 EFRAG noted the controversial nature of the question of whether the impairment-only model should be kept subject to suggested improvements or the amortisation of goodwill should be reintroduced and that many valid arguments exist in both camps. EFRAG acknowledged the conceptual and practical arguments for both the impairment-only model and reintroduction of amortisation and noted that more and more voices are raised in favour of the latter mainly for practical reasons. However, considering that an accounting policy should only be changed if it would provide reliable and more relevant information, EFRAG suggested the IASB further explore improvements to the existing impairment test and any cost and consequences of reintroducing amortisation (including how to determine the useful life, amortisation method, the impairment test to be applied under the amortisation model and transitional provisions which should be regarded as a package).
- 8 EFRAG noted that its responses to the DP did not depend on whether the outcome was consistent with US GAAP. However, EFRAG considered that the IASB outcome could be influenced by the FASB’s current work and noted that divergence with the FASB on the disclosures for acquisitions could impact perceptions around the fairness of such requirements.

Key discussion points for the session

- 9 The IASB’s ‘Plan for redeliberations’ is illustrated below:



Source: IASB staff Agenda Paper for the May 2021 IASB meeting.

- 10 The IASB will thus prioritise having an initial decision on whether to reintroduce amortisation of goodwill. That decision, and decisions on other aspects of the DP, might be affected by factors such as:
 - (a) the project objective;
 - (b) dependencies between topics in the project; and

(c) convergence with US GAAP.

11 For the June 2021 ASAF meeting, the IASB has prepared a high-level summary of issues to consider and the feedback received on the DP (Paper 11-02 for this meeting). The feedback received by the IASB is largely consistent with the feedback received from EFRAG's constituents.

12 In particular, the following feedback was received:

Project objective

13 The objective of the IASB's project, as stated in the DP, was to explore whether entities can, at a reasonable cost, provide users with more useful information about the business combinations they make.

14 Most respondents agreed with the objective of the project. However, some thought that the primary objective should be to address the effectiveness of the impairment test, rather than to focus on improving the disclosures an entity provides to users about business combinations. In addition, some (including EFRAG) questioned whether the project should be considered as a package of proposals with a unifying objective or whether it should be split in a subset of smaller projects.

Disclosures

15 The DP proposed new disclosures on for example: the objectives of a business combination and whether these subsequently have been met; synergies; and certain 'pro-forma' information.

16 Users and regulators generally thought the additional information had the potential to be useful whereas preparers expressed concerns about the feasibility of providing such disclosures and especially the commercial sensitivity triggered. The respondents welcomed some of the IASB proposals, such as new disclosure objectives and disclosure of pro-forma operating profit but did not consider useful to disclose the pro-forma cash-flows. Commercial sensitivity of information, disclosures about synergies and location of information (management report vs financial statements) and the CODM threshold were questioned (in line with EFRAG's response).

Subsequent accounting for goodwill

17 In addition to suggesting a quantitative impairment test to be performed only when an indication of impairment exists, the DP proposed simplifications/improvements to how to calculate value in use. The DP also suggested to maintain the current impairment-only approach for the subsequent accounting for goodwill.

18 The respondents welcomed the targeted improvements to the impairment test, (some added proposals to make the impairment testing more effective), rejected the indicator-only approach proposed by the IASB and provided mixed views on reintroduction of amortisation (in line with EFRAG's response). When considering the feedback received on amortisation, IASB member noted that there did not seem to be a clear direction on this topic. It was thus noted that convergence with US GAAP could be an element to consider in the discussion although constituents generally (in line with EFRAG's response) found convergence 'nice to have' but not something that should be pursued if it would result in suboptimal accounting requirements. Interaction with other aspects of the project should also be considered (for example the interaction with the new disclosures).

Questions for EFRAG TEG-CFSS

19 As mentioned in paragraph 4 above, Paper 11-02 for this meeting, the ASAF Agenda Paper provides a high-level summary of the feedback the IASB has received in response to its DP and provides an overview of 'things to consider' relating to the various topics addressed in the DP. Are there any other key pieces

of feedback or considerations you think the IASB should take into account during redeliberation?

Conversion with US GAAP

- 20 As mentioned above, convergence with US GAAP is one of the factors, the IASB will consider. The IASB is, however, unsure about what constituents have had in mind when noting that convergence with US GAAP should be an element to consider.

Questions for EFRAG TEG-CFSS

- 21 What do stakeholders mean when they refer to convergence:
- Is it only the subsequent accounting of goodwill or does it include disclosures for business combinations or the recognition of intangible assets separate from goodwill?
 - What level of convergence is expected, given that there are already differences in existing models (for example, if both boards reintroduce amortisation of goodwill, whether convergence should cover the amortisation model itself)?
- 22 What are the estimated costs of divergence for users and preparers respectively, considering that many said it is relatively easy to adjust for the difference?
- 23 Could the differences in existing accounting models, as well as in project objectives and feedback received by the two boards on their respective projects, justify different outcomes?
- 24 Or is maintaining convergence on the accounting for goodwill the most important factor to consider when deciding whether to change the business combination requirements in IFRS Standards?

Agenda Papers

- 25 In addition to this cover note, Agenda Paper 11-02 – *ASAF Agenda Paper 5 – Goodwill and Impairment* – has been provided for the session.