Proposed Final Comment Letter

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

[XX January 2021]

Dear Mr Hoogervorst,

Re: *IASB DP 2020/1 Business Combinations—Disclosures, Goodwill and Impairment*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the discussion paper *DP/2020/1 Business Combinations—Disclosures, Goodwill and Impairment,* issued by the IASB on 19 March 2020 (the 'DP').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area

EFRAG supports the objective of the DP to explore whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make. Similar to what is reflected in the DP, it is our understanding from discussions with users of financial statements that they do not think that sufficient information to assess acquisitions is currently presented in financial statements. It is therefore important to address this issue.

As it has previously been acknowledged by the IASB (and in this DP), some perceive there to be shortcomings in the current accounting for goodwill. A main cause of the issues related to goodwill accounting is, in the view of EFRAG, that goodwill is a mixture of many factors as indicated in paragraph 2.68 of the DP. It is a residual, considered by some to be an accounting construct rather than a reflection of something 'real'. Another issue is then that goodwill is not tested for impairment directly, but indirectly by testing the cash generating units to which it is allocated. This creates the so-called "shielding effect" and does not allow for a detailed subsequent monitoring of the different components subsumed in goodwill. These issues seem to be the reason for the view of some users that the existing impairment test on the reported goodwill has limited relevance.

EFRAG notes that the proposals in the DP do not aim at addressing, through disclosure or enhancement of the impairment model, the perceived shortcomings in goodwill accounting. Accordingly, the proposals would address some of the current perceived shortcomings but would leave room for improvement in this area. EFRAG also notes that many respondents did not regard the proposals as a package but rather as largely independent.

EFRAG sees merits in including disclosure objectives to provide information to help investors to understand the benefits that a company's management expects from an acquisition when agreeing the price to acquire a business and the extent to which an acquisition is meeting management's objectives for the acquisition.

EFRAG acknowledges that information about the strategic rationale and management's objectives for an acquisition as at the acquisition date and subsequent disclosures about whether an acquisition is meeting those objectives would be useful. However, EFRAG notes that there would be some practical issues to consider in relation to those disclosures, both to ensure that users receive sufficient and relevant information and that the costs of preparing/disclosing the information would not outweigh the benefits. In this regard EFRAG notes that some of the quantitative information suggested is based on management expectations and would often be non-GAAP measures. EFRAG accordingly suggests that entities can provide some of the information in the management commentary instead of in the financial statements. EFRAG also notes that some of the proposed information would be considered commercially sensitive. Although the hurdle should be high, EFRAG considers that it should be possible for entities not to present commercially sensitive information. In this regard, EFRAG notes that entities may find it particularly harmful if they would have to provide sensitive information, their competitors reporting under another GAAP would not have to disclose..

This also applies for the disclosures suggested on expected synergies. In addition, EFRAG notes that in order for the benefits of these disclosures, which reliability would depend on the specific circumstances, to outweigh the costs it may be necessary to introduce some flexibility in relation to when/how quantitative information should be presented. EFRAG does not consider that the benefits would outweigh the costs for the proposal to disclose cash flows from operating activities as part of the requirements currently included in paragraph B64(q) of IFRS 3 *Business Combinations.*

Furthermore, EFRAG does not assess that there would be any benefits of presenting the amount of total equity excluding goodwill on the balance sheet. On the contrary, EFRAG considers that this could result in confusion.

As EFRAG suggests that some of the information can be provided in the management commentary (with reference included in the financial statements). This should accordingly be reflected in the wording of the disclosure objectives suggested to be included in IFRS 3.

Similar to the IASB, EFRAG had in the past tried, but was not able, to design the impairment test in a manner that would be more effective. However, in order to remediate some of the perceived shortcomings of the current impairment model in practice, EFRAG considers that the guidance on how goodwill is allocated to cash generating units, in general and in case of disposals, can be improved. In addition, EFRAG assesses that better information related to the impairment test could be provided. These initiatives could potentially reduce the perceived shortcomings of the impairment test. In addition, EFRAG suggests disclosure proposals to mitigate the risk of management over-optimism.

EFRAG appreciates the IASB's attempts to simplify the impairment test. However, EFRAG has reservations about introducing an indicator-only approach.

[Position on goodwill amortisation to be included]

In 2017, EFRAG published the discussion paper *Goodwill Impairment Test: Can It Be Improved?* In this discussion paper, EFRAG proposed to remove the restriction in IAS 36 *Impairment of Assets* that prohibits companies from including cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance. It also proposed to remove the requirement to use pre-tax inputs and pre-tax discount rates to calculate value in use. These proposals were generally supported by EFRAG's constituents and EFRAG accordingly appreciates that the IASB is now considering these.

In considering the accounting for intangible assets, EFRAG considers it necessary that the IASB takes into account the concerns of investors who want to compare companies that grow by acquisitions more easily with those that grow organically and, as such, starts a project on IAS 38 *Intangible Assets*. Pending such a broader project on IAS 38, EFRAG questions the usefulness of considering a change in whether some intangible assets should be allowed to be included in goodwill at this stage. Instead, EFRAG would suggest initiating and awaiting the outcome of the broader project on IAS 38, which could be informed by EFRAG's pro-active work on better information on intangibles.

Finally, EFRAG's responses to the questions in the DP do not depend on whether the outcome is consistent with US GAAP. However, EFRAG considers that the IASB outcome could be influenced by the FASB's current work and notes that divergence with the FASB on the disclosures for acquisitions could impact perceptions around the fairness of such requirements.

EFRAG's detailed comments and responses to the questions in the DP are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Kathrin Schöne or me.

Yours sincerely,

Jean-Paul Gauzès

President of the EFRAG Board

Appendix I - EFRAG's responses to the questions raised in the DP

Section 1 – Introduction

Question 1

Paragraph 1.7 of the DP summarises the objective of the IASB research project. Paragraph IN9 of the DP summarises the IASB preliminary views. Paragraphs IN50–IN53 of the ED explain that these preliminary views are a package and those paragraphs identify some of the links between the individual preliminary views.

The IASB has concluded that this package of preliminary views would, if implemented, meet the objective of the project. Companies would be required to provide investors with more useful information about the businesses those companies acquire. The aim is to help investors to assess performance and more effectively hold management to account for its decisions to acquire those businesses. The IASB is of the view that the benefits of providing that information would exceed the costs of providing it.

Do you agree with the IASB's conclusion? Why or why not? If not, what package of decisions would you propose and how would that package meet the project's objective?

Do any of your answers depend on answers to other questions? For example, does your answer on relief from a mandatory quantitative impairment test for goodwill depend on whether the IASB reintroduces amortisation of goodwill? Which of your answers depend on other answers and why?

EFRAG's response

EFRAG supports the objective of the DP to explore whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make. It is our understanding that users of financial statements do not think that sufficient information to assess acquisitions is currently presented in financial statements. It is therefore important to address this issue.

EFRAG notes that the proposals in the DP do not aim at addressing, through disclosure or enhancement of the impairment model, perceived shortcomings in goodwill accounting. Accordingly, the proposals would address some current perceived shortcomings, but would leave room for improvement in this area.

EFRAG does not agree that the DP is a package of proposals, but rather considers it a series of proposals that can be considered independently. EFRAG would therefore encourage the IASB to implement swiftly the proposals on post-tax inputs and cash flows from future restructurings and asset enhancements including guidance on the latter. The IASB can then consider other proposals over a longer period as these may take longer period to implement.

The evolution of the project's objectives

1 EFRAG notes that the project resulting in this DP followed from the IFRS 3 *Business Combinations* Post Implementation Review ('IFRS 3 PIR'). Some of the feedback from the IFRS 3 PIR is summarised in Table 1.1 of the DP.

2 Following the IFRS 3 PIR, the IASB initiated a research project on goodwill and impairment that aimed to explore whether it is possible to simplify and improve the application of the impairment test, improve the disclosures about impairment of goodwill and simplify separation of specified identifiable intangible assets from goodwill in a business combination.

3 The IASB concluded that it would not be possible to make the impairment test significantly more effective and after no compelling evidence that including some intangible assets in goodwill save costs (but could increase the pressure on the impairment test for goodwill), the IASB decided, in July 2018, to refocus the objectives of the project. Thus, the IASB decided to develop the following project objectives:

(a) Identifying disclosures to enable investors to assess management's rationale for the business combination; and whether the subsequent performance of the acquired business, or combined business, meets expectations set at the acquisition date.

(b) Exploring whether to simplify the accounting for goodwill by permitting an indicator-only approach to determine when an impairment test is required; and/or reintroducing amortisation of goodwill.

(c) Exploring whether to improve the calculation of value in use by permitting cash flow projections to include future restructurings and future enhancements to an asset and the use of post-tax inputs in the calculation of value in use.

4 In paragraph 1.7 of the DP, it is explained that the objective of the project is to explore whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make.

Whether the IASB's preliminary views would meet the IASB's objectives

5 With reference to the objective of exploring whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make, EFRAG assesses that the IASB, by issuing this DP and with its further actions, could be in the process of meeting this objective. As the objective is 'to explore' whether or not the suggestions are subsequently implemented, this would not affect whether the objective is met.

6 With reference to the objectives listed in paragraph 3 above, EFRAG likewise thinks that the IASB could be in the process of meeting these objectives.

(a) EFRAG agrees that the proposals included in the DP identify disclosures to enable investors to assess management's rationale for the business combination; and whether the subsequent performance of the acquired business, or combined business, meets expectations set at the acquisition date. However, EFRAG expresses a number of reservations on reliability and feasibility (see EFRAG's answers to Question 2 to Question 5).

(b) EFRAG notes that the DP is exploring whether to simplify the accounting for goodwill by permitting an indicator-only approach to determine when an impairment test is required; and/or reintroducing amortisation of goodwill.

(c) EFRAG also notes that the DP is exploring whether to improve the calculation of value in use by permitting cash flow projections to include future restructurings and future enhancements to an asset and the use of post-tax inputs in the calculation of value in use.

7 If the objective would be to solve the issues identified in the feedback from the IFRS 3 PIR, EFRAG would not assess the objective to be completely met.

8 For example, if the proposals were to be implemented, EFRAG would expect that the IASB would still receive mixed views on how well the proposed requirements are working in respect of impairment of goodwill and indefinite-life intangible assets.

9 Also, although the disclosures identified by the IASB could be useful to assess the future performance of an acquisition, there are some practical issues with these disclosures which may result in much more useful information not being reported after all (see EFRAG's answers to Question 2 to Question 5). Furthermore, EFRAG

highlights that the proposed disclosures on the subsequent performance of an acquisition overall will not resolve the issues related to current goodwill accounting.

10 In addition, EFRAG questions whether the benefits of providing the disclosures on synergies will outweigh the costs if entities do not already prepare this information for internal purposes. Additionally, EFRAG indicates that the usefulness of the required information about cash flows from operating activities would be very limited and that it would be costly to prepare when the acquired business is fully integrated and does not prepare separate accounts.

11 With reference to the purpose of the project to improve goodwill accounting, EFRAG recommends linking the new disclosure to the goodwill impairment testing.

12 EFRAG also questions the usefulness of a consultation on the possibility to recognise, as part of goodwill, some of the acquired intangibles that are currently recognised separately (see Question 12), considering the stated limitation in the DP, i.e. it is out of scope of this project to remediate the non-comparability that exists today in accounting for internally generated intangibles and acquired intangibles. Considering its relevance, EFRAG invites the IASB to start working on the latter topic.

13 EFRAG does not agree that the different proposals are to be seen as a package, but rather several separate proposals loosely linked by cost considerations. Given the general agreement with the simplification of the impairment proposals for post-tax inputs and cash flows from future restructurings and asset enhancements, EFRAG encourages the IASB to implement such changes quickly. This includes providing guidance as to the cash flows of future restructurings and asset enhancements to be included in the estimation.

14 At the same time, within a longer time frame, the IASB should consider:

(a) The scope of the project and whether significant transactions could be addressed in another standard such as IAS 1 *Presentation of financial statements* by requiring similar disclosures to those contemplated in IFRS 3 *Business Combinations*;

(b) Commercial sensitivity (including forward looking nature of some of the information) of the disclosure proposals;

(c) Suggestions to improve the impairment test such as further guidance about goodwill allocation and reallocation and other disclosures such as the age of goodwill.

15 [Where the IASB considers that no further improvement is possible, goodwill amortisation should be adopted as a practical expedient. [This statement will be amended to reflect EFRAG's view on goodwill amortisation]]

16 Finally, EFRAG considers that requiring an entity to disclose on its balance sheet a subtotal of equity before goodwill will be more harmful than beneficial.

Section 2—Improving disclosures about acquisitions

Section highlights according to the IASB's DP

(a) *Investors want to understand how an acquisition is performing relative to management expectations.*

(b) *A company should be required to provide investors with the information that the company's management uses to monitor acquisitions.*

(c) *Investors could use this information to assess management's decisions to acquire businesses.*

Question 2

Paragraphs 2.4–2.44 of the DP discuss the IASB's preliminary view that it should add new disclosure requirements about the subsequent performance of an acquisition.

Do you think those disclosure requirements would resolve the issue identified in paragraph 2.4 of the DP—investors' need for better information on the subsequent performance of an acquisition? Why or why not?

Do you agree with the disclosure proposals set out in (i)–(vi) below? Why or why not?

(i) A company should be required to disclose information about the strategic rationale and management's (the chief operating decision maker's (CODM's)) objectives for an acquisition as at the acquisition date (see paragraphs 2.8–2.12 of the DP). Paragraph 7 of IFRS 8 *Operating Segments* discusses the term 'chief operating decision maker'.

(ii) A company should be required to disclose information about whether it is meeting those objectives. That information should be based on how management (CODM) monitors and measures whether the acquisition is meeting its objectives (see paragraphs 2.13–2.40 of the DP), rather than on metrics prescribed by the IASB.

(iii) If management (CODM) does not monitor an acquisition, the company should be required to disclose that fact and explain why it does not do so. The IASB should not require a company to disclose any metrics in such cases (see paragraphs 2.19–2.20 of the DP).

(iv) A company should be required to disclose the information in (ii) for as long as its management (CODM) continues to monitor the acquisition to see whether it is meeting its objectives (see paragraphs 2.41–2.44 of the DP).

(v) If management (CODM) stops monitoring whether those objectives are being met before the end of the second full year after the year of acquisition, the company should be required to disclose that fact and the reasons why it has done so (see paragraphs 2.41–2.44 of the DP).

(vi) If management (CODM) changes the metrics it uses to monitor whether the objectives of the acquisition are being met, the company should be required to disclose the new metrics and the reasons for the change (see paragraph 2.21 of the DP).

Do you agree that the information provided should be based on the information and the acquisitions a company's CODM reviews (see paragraphs 2.33–2.40 of the DP)? Why or why not? Are you concerned that companies may not provide material information about acquisitions to investors if their disclosures are based on what the CODM reviews? Are you concerned that the volume of disclosures would be onerous if companies' disclosures are not based on the acquisitions the CODM reviews?

Could concerns about commercial sensitivity (see paragraphs 2.27–2.28 of the DP) inhibit companies from disclosing information about management's (CODM's) objectives for an acquisition and about the metrics used to monitor whether those objectives are being met? Why or why not? Could commercial sensitivity be a valid reason for companies not to disclose some of that information when investors need it? Why or why not?

Paragraphs 2.29–2.32 explain the IASB's view that the information setting out management's (CODM's) objectives for the acquisition and the metrics used to monitor progress in meeting those objectives is not forward-looking information. Instead, the IASB considers the information would reflect management's (CODM's) targets at the time of the acquisition. Are there any constraints in your jurisdiction that could affect a company's ability to disclose this information? What are those constraints and what effect could they have?

EFRAG's response

EFRAG considers that the proposed disclosure requirements could result in useful information to assess business acquisitions. However, for the requirements to be most useful, the information to be provided should not be based on what information the CODM monitors. While EFRAG considers the information could be useful, it has some practical concerns including what information will be provided.

It also considers that some information might be better placed in the management commentary instead of in the financial statements as the information is based on management expectations and refers to non-GAAP indicators.

EFRAG also notes that the IASB would have to consider how to avoid entities having to disclose commercially sensitive information. EFRAG thus disagrees that commercial sensitivity would never be a reason to prevent disclosure of information that investors would find useful. EFRAG notes that the proposed disclosures will not resolve the issues related to current goodwill accounting.

Introductory remarks

17 EFRAG understands that the new disclosure proposals exposed for comments in this DP do not aim at providing enhanced information about the recoverability of the goodwill still recognised on the face of the statement of financial position, which could include goodwill from acquisitions that go back many years. Instead, they aim at providing better information about how successful an acquisition has been. EFRAG acknowledges that such information is important, irrespective of the presence of a material amount of goodwill deriving from an acquisition.

Are the financial statements the right place for these disclosures?

18 EFRAG notes that some consider some of the disclosures to be forward-looking and argue that the information would be better placed in the management commentary. EFRAG also understands that some consider that placing the information in the management commentary would reduce the risk of litigations based on the information. From a survey EFRAG has conducted, EFRAG understands that the concern is primarily related to the disclosures on the (specific) objectives of an acquisition and whether these objectives have been met and less related to the disclosures on the strategic rationale of a business combination. EFRAG also

understands that at least some users of financial statements are indifferent about whether the information is placed in the financial statements or the management commentary.

19 EFRAG acknowledges that the practice statement Management Commentary does not provide mandatory guidance. Accordingly, if the IASB included the guidance in the practice statement, the proposed disclosures might not be provided by many entities.

20 EFRAG accordingly suggests an approach similar to that used in IFRS 7 *Financial Instruments – Disclosures*. That is an entity would follow national guidance on whether to present in the management commentary or in the financial statements the information about the management's objective of an acquisition and the subsequent fulfilment of these objectives. If there would be no national guidance on this, the entity could choose to present the information in the information in the management commentary (if the entity would prepare a management commentary). If the information is placed in the management commentary, reference to the information in the management commentary should be included in the financial statements.

Would disclosure requirements resolve investors' need for better information on the subsequent performance of an acquisition?

21 EFRAG notes the concerns by investors that companies typically do not provide enough information to help investors understand the subsequent performance of an acquisition. Investors cannot assess whether management's objectives for the acquisition are being met—for example, whether the synergies that management expects from an acquisition are being realised. EFRAG notes that IFRS 3 only requires disclosures about an acquisition when it takes place. Thus, IFRS 3 does not require companies to provide entity-specific information about the subsequent performance of an acquisition.

22 EFRAG believes that, irrespective of the possible amendments to the accounting for goodwill, amending IFRS 3 to provide for enhanced disclosures about whether an acquisition has been a success could provide useful information. In that respect, EFRAG generally agrees with the suggestions included in the DP to provide information about subsequent performance of acquisitions to users.

23 EFRAG notes that the disclosures themselves may not be sufficient to confirm whether the price of an acquisition was reasonable and whether an acquisition has been successful. For example, if an objective of an acquisition is that revenue for a business segment (including several businesses) should increase by X%, an increase in the revenue for that business segment could increase by X% for other reasons than the acquisition. However, EFRAG considers that the disclosure could form the basis for the entity providing further explanations about why the fact that, for example, objectives have not been met does not mean that an acquisition has not been a success and what unforeseen circumstances have played a role.

24 EFRAG, nevertheless, assesses that the proposals of the DP would not completely resolve the concerns by investors in relation to their information needs on acquisitions.

25 One of the issues is recognised in the DP. Paragraph 2.39 of the DP states that requiring the proposed disclosures only for those acquisitions monitored by the chief operating decision maker ('CODM') may result in investors not receiving material information on acquisitions.

26 In addition, as noted below, EFRAG does not agree with the DP that the information monitored by the CODM should be the (only) point of reference among the possible internal monitoring bodies. EFRAG, however, agrees with the IASB that basing the

requirements on the information that is used internally to monitor an acquisition strikes a reasonable balance between meeting the needs of investors and making it feasible for companies to produce reliable information at a cost that is justified by the benefits to investors. In this regard, EFRAG also notes that the purpose of providing information about whether the objectives of an acquisition are being met, is primarily to allow users to assess the management's stewardship. Accordingly, it would be of limited use to require an entity to disclose a list of metrics that are not used to assess whether an acquisition is meeting its objectives.

27 EFRAG also shares the concern acknowledged in the DP about the verifiability of the information

28 As further exemplified below, it has sometimes been difficult for EFRAG to assess how the IASB has intended the disclosures required to be provided. Should the IASB decide to include the proposals in an exposure draft, it would therefore be beneficial to provide some additional guidance on this in order to avoid significantly different interpretations of the requirements and/or boilerplate disclosures. For example, it should be clarified that the values of the metrics used to monitor an acquisition should be provided.

29 The IASB would therefore have to test the usefulness of the specific disclosure requirements to be suggested included in an exposure draft with users based on 'real life' examples in order to ensure that the information will be useful.

30 Finally, EFRAG understands that the purpose of the suggested disclosures is to provide information about the success (or failure) of an acquisition. The purpose is thus not to provide information about reported goodwill.

31 It could, of course, have been beneficial if the information on the success of an acquisition, in the case that it would involve a substantial amount of goodwill, could also be used to assess the reported goodwill figures. If the objective of an acquisition would not be met, this could indicate that the acquired goodwill would be impaired (but because of the shielding effect an impairment loss might not be recognised). However, the approach suggested in the DP will not be particularly useful for this purpose as information would only be provided to the extent that it is used to monitor the acquisition by the management.

32 In relation to the reported goodwill figures, a side-effect of the proposal could, however, be that the level at which an acquisition is monitored would be an indication of the level at which goodwill should be tested for impairment. The new disclosure requirement could offer an anchor point for the level at which goodwill should be allocated to cash-generating units. EFRAG thus recommends that the IASB explores the possibility of including, in the guidance on the allocation of goodwill to cash-generating units included in IAS 36, an expectation that the goodwill impairment test would be done at the level at which an entity monitors whether an acquisition is meeting its objectives.

The specific disclosure proposals

33 EFRAG agrees with the proposal to replace the requirement to disclose the primary reasons for an acquisition with a requirement to disclose:

(a) the strategic rationale for undertaking an acquisition; and

(b) management's objectives for the acquisition at the acquisition date.

34 In particular, EFRAG considers that the revised requirements could overcome the limits of the current IFRS 3 requirements, which lack entity-specific focus. EFRAG agrees that management's objectives, being the objectives of the acquisition that management considers to be achieved for the acquisition to be a success, would form the basis for better information to help investors assess the subsequent performance of the acquisition. EFRAG agrees with the two levels of reasons for the

acquisition reflected in the requirements, i.e. to place the acquisition within the overall strategic plan of the entity and to detail the specific financial and non-financial aims. These aims are of particular importance, as their measurement leads to the metrics that support the quantitative entity-specific disclosure on the deviation between the initial target and the achieved performance in future periods.

35 In addition to providing information about the strategic rationale and management's objectives for an acquisition as at the acquisition date, EFRAG considers that it would be useful to require an explanation of the entity's investment criteria, including why the acquisition will be valuable for the entity. This would further enhance the relevance of the information about the expected synergies.

36 EFRAG generally agrees that it would be useful to disclose:

(a) whether it is meeting the objectives as long as it continues to monitor the acquisition – or the fact that it is not monitoring an acquisition;

(b) if it stops monitoring whether the objectives are being met; and

(c) if it changes the metrics it uses, to monitor whether the objectives of the acquisition are being met.

37 EFRAG considers the requirement of providing information on whether the objectives of an acquisition have been met using the metrics determined at the acquisition date as essential for assessing whether the objectives are being met. EFRAG acknowledges that it is not always possible or ideal to assess whether the objectives of an acquisition have been met using quantitative metrics, sometimes it is only possible or better to apply a qualitative assessment. However, when quantitative metrics are applied, it is not completely clear to EFRAG whether the DP would require an entity to disclose the value of the metrics based on which the assessment is made or whether it could, for example, just state "we will assess whether an acquisition has met its objectives based on the increase in revenue from product X" and then subsequently "based on the increase in the revenue from product X, the management assesses that the objectives of the acquisition are being met". EFRAG considers that the information will be useful if the value of the metrics is provided. EFRAG has assumed this to be the case in the remainder of its response to the DP.

38 It is also not clear for EFRAG what 'objectives' would be covered by the scope of the proposals. For example:

An entity acquires a business based on some expectations on, for example, profitability. The business becomes part of a business line (including several other businesses). A budget is made for the entire business line (every year) based on the budgets for each business (including the acquired business) and the performance of the business line compared with the budget is monitored by the CODM every year.

It is unclear whether in this case the budget for the entire business line would be covered by the requirements and should thus be disclosed every year.

39 When clarifying the requirements, the IASB should have in mind that:

(a) It would not seem to be appropriate to introduce a mandatory disclosure requirement that a reporting entity is not monitoring acquisitions while in reality it is on a higher level;

(b) On the one hand, an entity cannot reasonably be required to disclose all the information that the CODM reviews. On the other hand, the information provided should be complete.

40 Depending on, for example, the strategic rationale of a business combination, EFRAG acknowledges that it may not be meaningful to provide quantitative metrics

for the assessment of whether the objectives of the acquisition have been met. EFRAG, therefore, supports that the proposals do not require an entity to monitor whether the objectives of an acquisition have been met. EFRAG would not disagree with concerns that an entity could choose not to monitor whether the objectives of an acquisition have been met simply to avoid providing any disclosures about this. However, in those cases the entity would have to disclose that it is not monitoring the acquisition. As noted below, EFRAG considers that the information should be based on what is available at a lower level than the CODM. Accordingly, if it is disclosed that the entity is not monitoring an acquisition, this fact could be an important information for financial statement users. EFRAG understands that some users consider impairment losses to provide useful information in assessing management's stewardship. Accordingly, indirectly, the requirement to disclose when an acquisition is not monitored could perhaps discourage some entities from such an approach. In other words, the requirement to disclose that an entity is not monitoring an acquisition could create a market discipline. In addition, EFRAG presumes that if an acquisition is material, it is monitored and therefore it would be the information used by the party monitoring the acquisition that would be provided. In that respect EFRAG would expect that there would be good internal controls (e.g. audit committees) which would be involved in determining whether acquisitions are monitored.

41 In order to assess whether the stated objectives of an acquisition as at the acquisition date are subsequently met, it is necessary to subsequently compare realised metrics with the objectives. It is difficult to assess whether the objectives of an acquisition as at the acquisition date are met, if the metrics used to assess this are different from the metrics used when setting the objectives. It could accordingly be considered whether it would be more useful for an entity that subsequently, for internal purposes, would apply other metrics to monitor an acquisition, to still prepare and disclose the metrics that were originally set to be used to assess the success of the acquisition. However, if requirements to disclose non-GAAP metrics would be introduced, EFRAG considers that it would seem inconsistent from a cost/benefit perspective to require companies that change the metrics used to monitor whether the objectives for the acquisition are met, to keep monitoring the acquisition based on the old metrics (that may not be otherwise collected), while companies that stop monitoring whether the objectives for the acquisition are being met are not required to do so. Requiring companies to disclose the new metrics and the reasons for the change, would thus seem to be a good balance. While the new metrics may not provide useful information to assess whether the objectives of an acquisition have been met, the companies' disclosure of the reason for the change and the new metrics could be useful.

42 EFRAG agrees with the proposals that an entity should not be required to provide metrics about an acquisition if such metrics are not monitored by the management. This is because it will not always be meaningful to provide such metrics. Similarly, because the strategic rationales and the objectives of acquisitions can be very different, when it is meaningful to assess whether the objectives of a business combination are met by metrics, the metrics that would be meaningful to use for this assessment will vary. EFRAG therefore also agrees with the DP that if metrics were to be provided, they should not be specified in IFRS 3 but should be those used by the management to monitor whether the objectives of the acquisition are being met. This being said, in order to clarify the types of metrics that could be disclosed, it would have been useful had the DP included an illustrative example of such metrics.

43 EFRAG assesses that after two to three years, it may be difficult, for practical reasons, to monitor whether the objectives of an acquisition have been met, as the acquired business eventually may become indistinguishable from the rest of the acquiring company's business. However, as the integration could take more than

two years for a significant proportion of material acquisitions, EFRAG considers that it should be disclosed if an entity stops monitoring whether the objectives of an acquisition have been met within the first three years following the acquisition, instead of after the two years suggested in the DP..

44 If an entity assesses that it is useful to continue to monitor the acquisition for a longer time, this information is also likely to be useful for the users of the financial statements. If the information is to be provided, EFRAG, therefore, also support that the entity should continue to disclose whether the objectives for an acquisition are being met as long as this is monitored by the management of the entity.

Basing the information provided on the information the entity's CODM reviews

45 EFRAG is not concerned that from the perspective of users, the volume of disclosures would be onerous if companies' disclosures are not based on the acquisitions that the CODM reviews. On the contrary, EFRAG is concerned that users may not receive sufficient information if the disclosures would only be based on the information that the CODM reviews.

46 On the other hand, EFRAG also considers that the cost of providing information about all acquisitions (and having this information audited) could result in a situation in which the cost of preparing the information would outweigh the benefits. However, as long as the information about an acquisition is prepared internally, the additional costs of preparing the information might be reasonable compared with the benefits of the information.

47 EFRAG, therefore, believes that if the information is to be provided, it should be based on:

(a) Firstly, a general materiality level. That is, if an acquisition is material, information about it should be provided.

(b) Secondly, the information provided should be based on the information used to monitor the acquisition internally by the relevant decision maker. The relevant decision maker may correspond to the CODM or to a lower level, depending on the entity's strategy and organization.

48 EFRAG also suggests that the IASB should consider whether, and if so how, an entity should provide the suggested information if it undertakes many small acquisitions, as part of an overall strategy, that combined are material. EFRAG notes that this suggestion should not mean that an entity would have to provide disclosures on intended future acquisitions when describing the objectives of the acquisitions.

49 EFRAG acknowledges that there are advantages of referring to the information used by the chief operating decision maker, as this term is already defined in IFRS 8 *Operating Segments*. However, EFRAG considers that it should also be possible to define 'the relevant decision maker' level on which the disclosures on the success (or failure) of acquisitions should be based.

Commercial sensitivity

50 EFRAG assesses that the information required by the proposals could result in companies having to disclose information they would consider commercially sensitive.

51 EFRAG notes that information might be considered commercially sensitive if it, for example:

(a) Would require an entity to disclose "a secret strategy";

(b) Would provide information on how much the entity is willing to pay for possible future targets, when an entity has a strategy to make many acquisitions within a limited time period.

52 EFRAG notes that many current requirements, could have the same effect. For some companies, the profit margin appearing in the statement of financial performance could thus be commercially sensitive. EFRAG, however, also notes that entities seem to be most reluctant to provide commercially sensitive information that is forward looking and if disclosing the information is considered to provide a commercial disadvantage compared to entities preparing financial information under another set of requirements. If the proposed information is to be provided, a balance therefore needs to be struck. EFRAG thus disagrees that commercial sensitivity could never be a reason to prevent disclosure of information that investors would find useful. However, EFRAG suggests that the IASB's proposal should include a 'high threshold' for entities that do not disclose information due to commercial sensitivity to avoid that less commercially sensitive information is also not disclosed.

53 Accordingly, EFRAG suggests the IASB to address this issue. One approach could be a 'disclose or explain' approach under which an entity does not disclose specified information, if disclosing the information would seriously harm the entity's possibilities to achieve the expected objectives (or by other means result in a significant unfavourable position for the entity). This approach would be similar to the approach included in paragraph 92 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Under a 'disclose or explain' approach, the IASB would have to consider how the approach should be applied when some information might be commercially sensitive while others might not to avoid that, for example, only the 'good' information is disclosed.

54 Another approach, the IASB could consider in the case an entity would not provide the required disclosures, would be to either require entities to determine the additional information it would need to meet the disclosure objectives or to specify alternative information to allow users making some assessment of the management's decisions to acquire a business. Such information could be:

(a) Clear information about the price (including non-cash transfers such as new shares in the acquirer issued to the vendor and assets injected by the acquirer into the new entity if the vendor retains a stake);

(b) Information about what has been bought (e.g. financial information relating to the acquired business – including information from the last audited balance sheet to the date of first consolidation by the new owner);

(c) Estimations (and supporting assumptions) of the stand-alone fair value of the acquired business as of the acquisition date.

55 It could, of course also be considered by the IASB to only require disclosure of information that would not be commercially sensitive (for example information like the information mentioned in paragraph 54 above could be provided).

Constraints that could affect an entity's ability to disclose the proposed information

56 EFRAG is not aware of any constraints within the European Economic Area that could affect an entity's ability to disclose the information proposed in the DP.

Question 3

Paragraphs 2.53–2.60 of the DP explain the IASB's preliminary view that it should develop, in addition to proposed new disclosure requirements, proposals to add disclosure objectives to provide information to help investors to understand:

(a) the benefits that a company's management expected from an acquisition when agreeing the price to acquire a business; and

(b) the extent to which an acquisition is meeting management's (CODM's) objectives for the acquisition.

Do you agree with the IASB's preliminary view? Why or why not?

EFRAG's response

EFRAG supports the introduction of the disclosure objectives, however, it should be specified that the objectives apply to the information provided in both the financial statements and the management commentary.

57 As stated in the answer to Question 2 above, EFRAG considers that the proposed requirements to disclose information about the strategic rationale and management's objectives for an acquisition as at the acquisition date could result in useful information. Similarly, information on whether the entity is meeting the objectives would be useful.

58 As noted in paragraph 20 above, EFRAG considers that some of the suggested information can be provided in the management commentary. In that case, EFRAG is of the view reference to the information in the management commentary should be included in the financial statements.

59 EFRAG agrees with the specific requirements as information to assess the expected benefits from an acquisition and the extent to which the acquisition is providing these benefits is useful. Such information is important for assessing the management's stewardship. In order for preparers to better understand the purpose of the disclosure requirements and hence be able to provide the disclosures best suited, EFRAG supports the introduction of disclosure objectives.

Question 4

Paragraphs 2.62–2.68 and paragraphs 2.69–2.71 of the DP explain the IASB's preliminary view that it should develop proposals:

(a) to require a company to disclose:

  (i) a description of the synergies expected from combining the operations of the acquired business with the company's business;

  (ii) when the synergies are expected to be realised;

  (iii) the estimated amount or range of amounts of the synergies; and

  (iv) the expected cost or range of costs to achieve those synergies; and

(b) to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities.

Do you agree with the IASB's preliminary view? Why or why not?

EFRAG's response

EFRAG considers that the suggested disclosure requirements on synergies could provide useful information. Similar disclosures for other components of goodwill could equally provide useful information. EFRAG considers that the benefits of providing the disclosures on synergies will outweigh the costs provided that the information is already available to an entity as a result of the M&A process or by other internal source. If it would not be the case, EFRAG suggests that a higher flexibility would be given to entities to limit the disclosures to qualitative information only. In order to increase comparability between entities, EFRAG suggests the IASB to further clarify how they consider the disclosures to be provided, and what 'synergies' encompass. EFRAG also considers that entities should be allowed to present the information in the management commentary instead of in the financial statements by including a reference in the financial statements to the information in the management commentary. Similar to disclosures on management objectives for an acquisition and its subsequent performance, EFRAG notes that the IASB would have to consider how to avoid entities having to disclose commercially sensitive information. EFRAG thus disagrees that commercial sensitivity would never be a reason to prevent disclosure of information that investors would find useful. EFRAG supports separate disclosure of liabilities arising from financing activities and defined benefit pension liabilities acquired as part of an acquired business.

Synergies

60 Similar to the proposed disclosures of the management objectives and strategic rationale for an acquisition and its subsequent performances, EFRAG notes that there may be issues related to the auditability, costs of preparing the information and commercial sensitivity of the proposed information on synergies. These issues are discussed in paragraphs 70 - 77 below. Despite these issues, EFRAG does consider that the proposed disclosures provide useful information and EFRAG's comments in relation to the usefulness of the information are thus provided in the following paragraphs.

61 EFRAG also considers that, due to the nature of information involved, the proposed disclosures might be better placed in the management commentary instead of in the financial statements. EFRAG accordingly suggests an approach for the disclosures similar to that described in paragraph 20 above.

62 EFRAG thus generally considers that the suggested disclosure requirements on synergies expected from combining the operations of the acquired business with the company's business could be useful for users of financial statements. In relation to the description of the synergies and the benefits expected from these, as suggested in the DP, it could also be useful to describe any conditions on which the benefits would depend.

63 EFRAG notes that, if goodwill were to be amortised, and synergies would constitute a significant element of goodwill, there should be a link between the information provided on when the entity is expected to benefit from the synergies and the amortisation period of goodwill (or the part of goodwill related to the synergies), for those goodwill components for which this would be relevant. Whether the information would be relevant would depend on the type(s) of synergy(ies) identified, as it could be argued that some types of synergies are not "consumed". It would accordingly be necessary for management to assess whether synergies are subject to consumption (and thus have a finite life), or on the contrary have an indefinite life. If goodwill were to be amortised, it would then also be relevant to consider disclosure

about the pattern by which the entity is expected to benefit from the synergies for the types of synergies that are consumed.

64 Although EFRAG generally thinks the suggested disclosures on synergies could be useful, EFRAG:

(a) considers that the information could also be provided for other elements that constitute goodwill (other than synergies), and/or at least a different type of materiality threshold could be introduced, as illustrated below; and

(b) considers that the benefits from providing the information would outweigh its incremental costs only if certain practical aspects of the proposed disclosures are addressed.

Information for other elements of goodwill and a different materiality threshold

65 Paragraph B64 of IFRS 3 requires an entity to provide a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree. According to the DP, investors have said the information they want is not about goodwill itself, but information that gives them a better understanding of why a company paid the price it did for the acquired business.

66 In order to provide better information about why a company paid the price it did for the acquired business, EFRAG considers that similar information as that suggested in the DP for synergies could also be required for other elements of goodwill. Expectations related to other types of intangible resources that would not qualify for (separate) recognition would thus be relevant in that regard.

67 If such additional requirements would not be introduced, it is EFRAG’s view that the information about synergies should be provided in a manner that could provide users with information about the size of the remaining parts of goodwill. This would mean that a different materiality threshold should be set for the information on synergies.

68 EFRAG thus considers that when an acquisition is material and information about it is accordingly provided in the financial statements, it should first be assessed whether goodwill was material for the price paid for the acquired business. If goodwill is material and synergies constitute a material part of goodwill (which would therefore be mentioned in the disclosure required by paragraph B64), the proposed disclosures on synergies should then be provided. This could mean that the reported range of synergies reported in isolation would not be material amounts (for example, when goodwill is just material and synergies is just one of several material parts of goodwill – then the synergies by themselves would not be material). However, it would then provide users with information about the size of the remaining parts of goodwill, such as intangible assets that do not qualify for separate recognition.

69 While EFRAG believes that a materiality threshold set as described above would result in the most useful information, EFRAG is also aware that providing such information results in some practical issues and that the cost/benefit aspects would also need to be considered.

Practicability and cost/benefit aspects

70 EFRAG considers that the information about synergies that is proposed in the DP would provide investors with useful information. However, from a cost/benefit perspective, EFRAG considers that the benefits would outweigh the costs only if the required information is already available to the entity as part of the M&A process or other internal sources. That condition would also affect the reliability and the auditability of the information that will eventually be reported.

71 EFRAG notes that the reliability and auditability will depend on the circumstances. In some circumstances, when the synergies are the key driver of an acquisition, the required information could be easily available to entities. In addition, the information could often be subjected to an extensive level of internal scrutiny by the entities' governing bodies and, as such, could be deemed to be produced in a way that would be reliable and auditable. Furthermore, the proposed requirements indicate that range of amounts can be alternatively disclosed, and it would allow preparers to maintain quantitative information at a broader level only. However, in some other circumstances, this information would be difficult to translate into a meaningful accounting number. EFRAG accordingly suggests that in those cases some flexibility should be provided to entities to limit the disclosures to qualitative information only.

72 Some of the information may also be derived more or less directly from the measurement process of the purchase price allocation, which is currently audited. However, in order for the information to be a faithful representation of the expectation of a company's management when agreeing the price to acquire a business, it seems to be an underlying assumption that the purchase price allocation is done before an acquisition and not as a compliance exercise after the acquisition. EFRAG understands that, in practice, this assumption may often not hold.

73 EFRAG also notes that currently there is diversity in practice on what entities consider "synergy". It is then/also considered unclear what information is expected when referring to the amount of synergies and the costs of obtaining them. Depending on how the different components of expected cash flows as part of the purchase price and other future monetary benefits are considered and modelled, EFRAG acknowledges that the reliability and auditability would depend on the description in the notes. In this context, a further definition on the concept of synergy, what it includes and what information would be relevant to meet the disclosures objectives could be beneficial.

74 As part of EFRAG's investigations on this issue, feedback has been received that potential requirements might include, other than a definition of 'synergies' and other suggestions in paragraph 73, for example: a specification of whether 'estimated amount or range of amounts of the synergies' relates to synergies in total or to each type of expected synergy; and a clarification if a detailed pattern of synergy realisation by type (or in total) or simply a timeframe by type (or in total) should be disclosed.

75 EFRAG also notes that information about expected synergies might be considered to be sensitive information, even though companies will not be required to disclose detailed plans on how they intend to realise the synergies

76 Accordingly, the considerations included discussed in paragraphs 53 - 55, would also be relevant for the information on synergies.

77 Given these issues, EFRAG would therefore welcome further assessment of the practicability of these requirements, considering their possible added benefit in terms of decision-usefulness.

Liabilities arising from financing activities and defined benefit pension liabilities

78 EFRAG supports the proposal to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities. This would mean that companies would disclose separately the amount of such liabilities acquired as part of the acquired business for each acquisition, if the information is material. EFRAG notes that the information would be useful for investors and is likely to be readily available because these items are required to be recognised and measured at the acquisition date.

Question 5

IFRS 3 *Business Combinations* requires companies to provide, in the year of acquisition, pro forma information that shows the revenue and profit or loss of the combined business for the current reporting period as though the acquisition date had been at the beginning of the annual reporting period.

Paragraphs 2.82–2.87 of the DP explain the IASB's preliminary view that it should retain the requirement for companies to prepare this pro forma information.

(a) Do you agree with the IASB's preliminary view? Why or why not?

(b) Should the IASB develop guidance for companies on how to prepare the pro forma information? Why or why not? If not, should the IASB require companies to disclose how they prepared the pro forma information? Why or why not?

IFRS 3 also requires companies to disclose the revenue and profit or loss of the acquired business after the acquisition date, for each acquisition that occurred during the reporting period.

Paragraphs 2.78–2.81 of the DP explain the IASB's preliminary view that it should develop proposals:

- To replace the term 'profit or loss' with the term 'operating profit before acquisition-related transaction and integration costs' for both the pro forma information and information about the acquired business after the acquisition date. Operating profit or loss would be defined as in the Exposure Draft General Presentation and Disclosures.
- To add a requirement that companies should disclose the cash flows from operating activities of the acquired business after the acquisition date, and of the combined business on a pro forma basis for the current reporting period.

(c) Do you agree with the IASB's preliminary view? Why or why not?

EFRAG's response

EFRAG suggests that the IASB provides a principles-based definition for the new concepts of 'acquisition-related' and 'integration cost' to be used in preparing the pro forma information. EFRAG agrees with replacing 'profit or loss' with 'operating profit before acquisition-related transaction and integration costs' for both the pro forma information and information about the acquired business after the acquisition date. EFRAG disagrees with providing similar information for cash flows from operating activities.

Pro forma information

79 EFRAG agrees with the proposal in the DP to retain the requirement to disclose pro forma information, to the extent practicable of the combined entity for the current reporting period as though the acquisition date had been at the beginning of the annual reporting period.

80 Whilst the pro forma information of the combined entity for the current reporting period as though the acquisition date had been at the beginning of the annual reporting period is hypothetical, EFRAG considers that it is useful. Trend information about an entity's financial performance is important for users. A material acquisition in a financial year will make information about the past less useful for predicting the future. EFRAG assesses that the pro forma information could be helpful in this

regard. EFRAG, however, considers that the information provided will be non-GAAP in nature and this may result in practical issues.

81 The DP indicates that there are differences in how pro forma information is prepared. EFRAG would not disagree with this. However, EFRAG also notes that the information would be non-GAAP information and, as such, subject to judgement. In addition, in some jurisdictions detailed guidance on the preparation of such information is provided by other authorities and organisations, for example, by stock exchanges. Accordingly, EFRAG does not consider that it should be a priority for the IASB to develop guidance on how to build pro forma measures. However, EFRAG suggests that the IASB provides a principles-based definition for the new concepts of 'acquisition-related' and 'integration cost' to help enhance comparability of the information. In addition, EFRAG would support entities providing explanations about the judgement applied in the preparation of the pro forma information.

Replacing 'profit or loss' with 'operating profit before acquisition-related transaction and integration costs'

82 EFRAG supports replacing 'profit or loss' with 'operating profit before acquisition-related transaction and integration costs' in the disclosures currently required in paragraph B64(q) of IFRS 3.

83 That change will provide investors with information about the operating performance of the main business activities of the acquired business since the acquisition date that is independent of how the acquired business is financed and how the entity has allocated finance costs and tax expenses between an integrated acquired business and the existing business.

84 EFRAG's support is, however, conditional on 'operating profit or loss' being defined in IFRS. As mentioned in EFRAG's comment letter in response to IASB ED/2019/7 *General Presentation and Disclosures*, EFRAG generally supports the definition of operating profit or loss included in that exposure draft. Although the information suggested on operating profit or loss in the DP will be on a different level than the reporting entity, and hence be a non-GAAP measure, it is necessary to have some principles on what the information should include. For the same reason, if the IASB would replace 'profit or loss' with 'operating profit before acquisition-related transaction and integration costs', EFRAG would support the IASB in developing a principle-based definition to provide guidance on what 'acquisition-related transaction and integration costs' would include. For the 'acquisition-related transaction costs', the IASB could refer to the guidance included in paragraph 53 of IFRS 3 *Business Combinations*.

85 As a minor point, while the DP is referring to 'operating profit before deducting acquisition-related costs and integration costs', EFRAG suggests referring to 'operating profit or loss before deducting acquisition-related costs and integration costs' to align the figure and wording with the proposed definition of 'operating profit or loss'.

Cash flows from operating activities

86 EFRAG disagrees with the proposal to require entities to disclose the cash flows from operating activities of the acquired business after the acquisition date, and of the combined business on a pro forma basis for the current reporting period. EFRAG considers that the usefulness of this information would be very limited. EFRAG seeks input on the costs to prepare this information when the acquired business is fully integrated and does not prepare separate accounts.

87 EFRAG questions the usefulness of the information as those investors using cash flow information in their analyses would likely need additional information on cash flows in order to be able to use the figure. Cash flows from operations can be heavily

affected by, for example, whether a business would allow customers to defer their payments in the period before the acquisition date and such information would not be available to the users of the financial statements from the figure. In addition, without further guidance on how the figure should be calculated, EFRAG assesses that divergence in practice would arise which would further diminish the usefulness of the figure.

88 EFRAG believes that it could be costly to prepare the information. If the indirect method is applied for preparing the statement of cash flows, entities might have to prepare additional statements of financial position in order to be able to provide the information.

Section 3— Goodwill impairment and amortisation

Section highlights according to the IASB's DP

(a) *Goodwill can be tested for impairment only indirectly.*

(b) *Preliminary view to retain impairment-only model—no compelling evidence that a change is needed.*

(c) *Both methods of accounting for goodwill—impairment-only and amortisation with impairment—have limitations. Which method would more effectively hold management to account?*

(d) *Do stakeholders have new information to help the IASB?*

Question 6

As discussed in paragraphs 3.2–3.52 of the DP, the IASB investigated whether it is feasible to make the impairment test for cash-generating units containing goodwill significantly more effective at recognising impairment losses on goodwill on a timely basis than the impairment test set out in IAS 36 *Impairment of Assets*. The IASB's preliminary view is that this is not feasible.

(a) Do you agree that it is not feasible to design an impairment test that is significantly more effective at the timely recognition of impairment losses on goodwill at a reasonable cost? Why or why not?

(b) If you do not agree, how should the IASB change the impairment test? How would those changes make the test significantly more effective? What cost would be required to implement those changes?

(c) Paragraph 3.20 of the DP discusses two reasons for the concerns that impairment losses on goodwill are not recognised on a timely basis: estimates that are too optimistic; and shielding. In your view, are these the main reasons for those concerns? Are there other main reasons for those concerns?

(d) Should the IASB consider any other aspects of IAS 36 in this project as a result of concerns raised in the Post-implementation Review (PIR) of IFRS 3?

EFRAG's response

EFRAG shares the IASB's reservations on the possibility to develop a different and more effective impairment approach. However, EFRAG believes that, without putting into question the fundamentals of impairment in IAS 36, there are collateral areas of possible improvements. EFRAG suggests that the guidance on goodwill allocation to cash generating units is discussed and possibly amended to improve how the test is applied in practice. In addition, better disclosures of estimates used to measure recoverable amounts of cash-generating units containing goodwill could supplement the improvements to goodwill allocation guidance.

Designing an impairment test to be significantly more effective

89 EFRAG notes that the main issues that the IASB is trying to solve with this project is that impairment losses on goodwill are sometimes recognised too late (long after the events that caused those losses) and, as such stakeholders have urged to make

the impairment test more effective at recognising impairment losses on goodwill on a timely basis. In addition, EFRAG has received recent feedback from users that the current impairment model is unsatisfactory.

90 EFRAG has reservations on the possibility to develop a different and more effective impairment approach. Among others, in the past, also EFRAG tried to develop an alternative approach (2017, *Goodwill Impairment Test: Can it be improved?*) but that approach was not supported by the constituents in that consultation. However, EFRAG believes that, without putting into question the fundamentals of impairment in IAS 36, there are collateral areas of possible improvements, as described below. EFRAG anticipates that the benefits of exploring these enhancements may be justified irrespective of the eventual reintroduction of the amortisation, as the risk of overstating goodwill is reduced as a result of the amortisation process only several years after the initial recognition and in this period the risk of impairment can be material.

91 EFRAG agrees with the reasons identified, i.e. that estimates of cash flows may sometimes be too optimistic and the so called “shielding” effect (see paragraph 95). Because goodwill does not generate cash flows independently, it is tested for impairment within the cash-generating units expected to benefit from the acquisition. As the current guidance in IAS 36 refers, in addition, to the level at which the entity monitors goodwill, companies have some flexibility and can allocate goodwill on a judgemental basis. Companies that are not monitoring goodwill after acquisitions have to allocate goodwill at least to operating segments as defined under IFRS 8.

92 To a certain extent, this shielding effect is unavoidable, as:

(a) the impairment test is not targeted to measure the recoverable amount of goodwill but that of the CGU or group of CGUs;

(b) after the business combination, an additional shield normally arises from internally generated goodwill; and

(c) the potential shielding effect increases with a higher level of allocation and the potential mix of business with different profitability.

93 The level of allocation of goodwill could be discussed to improve the effectiveness of impairment testing by improving the guidance on allocation and having therefore impairments to be recognised at an earlier stage as triggering events can be monitored, as well, at a lower level.

94 EFRAG suggests that the guidance on goodwill allocation to cash generating units is discussed and possibly amended to improve how the test is applied in practice (see paragraphs 100-107 below). In addition, better disclosures on estimates used to measure recoverable amounts of cash-generating units containing goodwill could supplement the improvements to goodwill allocation guidance (see paragraphs 110-111 below).

Reasons for the concerns that impairment losses on goodwill are not recognised on a timely basis

95 EFRAG agrees with the view indicated in the DP, that the two main reasons for the possible delay in recognising impairment losses on goodwill are management over-optimism (management may sometimes be too optimistic in making the assumptions needed to carry out the impairment test) and the shielding effect created arising from internally generated goodwill, unrecognised assets, and unrecognised differences between the carrying amount of recognised assets and liabilities and their recoverable amounts. EFRAG notes that the shielding effect is generally greater when goodwill is allocated to groups of cash generating units containing many cash generating units.

Management over-optimism

96 EFRAG acknowledges that management having a high level of optimism about future cash flows associated with the CGU to which goodwill is allocated, was cited by some of its constituents as a main reason for delays in recognising impairment of goodwill.

97 The DP concludes that the management over-optimism is best addressed by auditors and regulators, not by changing IFRS Standards. EFRAG might not completely agree with this. Auditors and regulators might not be able to have better knowledge about the business development than management, and therefore they might not replace the estimations made by management with their own estimations. To address the risk that estimates used by management could be too optimistic, EFRAG suggests that the IASB considers developing possible disclosure solutions for a better transparency of the estimates made or their achievement and improving the guidance for identification of impairment testing trigger events. Furthermore, if management forecasts used in the impairment test are shown to be generally overoptimistic over a certain period (e.g., five years) as a consequence, additional disclosure requirements could be considered. This could include disclosing an additional measure using the current level of earnings (assuming no growth) rather than the management forecast.

Shielding effect

98 EFRAG admits that the IASB considered the headroom approach to address the shielding effect. The headroom approach does address the 'too little too late' concern. However, it does not do it perfectly. Its practical outcome would depend heavily on the allocation of impairments between acquired goodwill and unrecognised headroom. In addition, such approach would reduce shielding but not eliminate it.

99 Furthermore, the 'headroom approach' could result in recognising impairments that are, in some circumstances, difficult to understand adding complexity (particularly for companies that frequently acquire new businesses) and would add cost. Thus, the headroom approach did not seem to receive wide support when it was suggested. However, EFRAG considers that the approach, despite its complexity, had the conceptual merit of addressing the intrinsic limits of the impairment approach.

Allocation of goodwill to the cash-generating units ('CGUs')

100 As noted above, to reduce shielding to a certain extent and to reduce judgement and avoid any opportunistic behaviour, EFRAG suggests that the guidance on allocation of goodwill to the cash-generating units could be enhanced to improve how the test is applied in practice.

101 EFRAG acknowledges that the shielding effect is generally greater when goodwill is allocated to groups of cash generating units containing several cash generating units or in cases where goodwill is allocated to one large CGU which size is significant compared to the acquired business.

102 EFRAG agrees with the DP that academic research suggests that goodwill impairment losses might be used opportunistically by some managers. EFRAG observes that this might be linked to the level of judgement allowed by the current guidance. As noted above, this can happen by being over-optimistic (or the opposite) when estimating future cash flows. However, it can also be done by means of adopting a certain approach when allocating goodwill to CGUs. Either by allocating goodwill to a higher level (where managerial monitoring is possible at a lower level) and/or by reallocating goodwill (for example, by means of changing segment reporting).

103 EFRAG considers that the guidance could be clarified to help allocate goodwill to the lowest level possible that outweighs costs of impairment testing and information needs based on value relevance.

104 In addition, to mitigate a potential factor to the perceived ineffectiveness of the impairment test in practice, the IASB could assess whether introducing additional guidance on the allocation of goodwill to CGUs could improve the application of the impairment test. EFRAG understands that the current guidance allows, in some circumstances, to allocate in practice goodwill in a way that is not fully reflective of the structure of cash generating units and, therefore, not fully reflective of the intended benefit for which the entity paid the purchase price. The current guidance foresees that for the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall: a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and b) not be larger than an operating segment determined in accordance with IFRS 8. Entities that indicate that they are not "monitoring" goodwill, would test goodwill on segment level. In fact, in some circumstances, operating segments can be defined by entities independent from the structure of cash inflows and as companies have the possibility to claim that they are not "monitoring" goodwill, this could lead to the situation that allocation of goodwill is not connected to the reasons it was recognised as of the acquisition date. In such circumstances, events that trigger impairment may become more difficult to promptly be identified.

105 EFRAG understands that this guidance might provide room for opportunistic behaviour, and in extreme circumstances may even be an incentive to adjust segment reporting so that, as a result of offsetting head-rooms between more and less profitable units, the risk of impairment is reduced.

106 EFRAG suggests exploring to rely more on the goodwill allocation guidance on the managerial assessment that is done at acquisition on how benefits and synergies deriving from a given acquisition are expected to materialise. This could be done also in coordination with the proposed new disclosure on the expected targets used to measure the performance of the business combination.

107 EFRAG considers preparers should be able to allocate goodwill from recent business combinations based on the decisions made to pay a certain purchase price. Beside better allocation to a relevant unit of account, this would allow better identification of events that indicate impairment. EFRAG considers that goodwill allocation to cash generating units should be required. For example, to reduce the possibilities of opportunistic behaviour, a rebuttable presumption could be considered that the allocation level is below operating segment level. Any allocation to segment level should be reasonably explained in the notes by management with a focus on explanation of cash inflow structure and cash inflows that can be monitored and would trigger impairment.

108 The IASB could also consider enhancing the guidance for reallocation of goodwill. The current guidance requires reallocation if an entity reorganises its reporting structure in a way that changes the composition of one or more cash-generating units. Reallocation is driven by changing the reporting structure. In addition, the relative value approach leads to a situation that a unit with a weak performance can decrease impairment risk by reallocation. For the purposes of the subsequent measurement of goodwill, reallocation would be allowed in the enhanced guidance only provided that they are justified by a change in the cash flow structures. A re-allocation of reporting segments in its own would not be sufficient anymore.

109 EFRAG recognises that tracking of goodwill and allocating it properly to cash generating units will require better documentation. The basis for such documentation is related to the acquisition and further strategy development. Therefore, such documentation should be possible at reasonable cost.

Better disclosures to estimates used to measure recoverable amounts of cash-generating units containing goodwill

110 As indicated above in paragraph 96, EFRAG considers that better disclosures of the estimates used to measure recoverable amounts of cash-generating units containing goodwill could supplement the improvements of the goodwill allocation guidance.

111 In addition, the intended better disclosures about acquisitions over a certain period subsequent to the acquisition besides giving better information about the acquisition to the user, will allow users with a better understanding of the goodwill allocation and better assessment of the estimations made by management to calculate the recoverable amount.

112 EFRAG suggest that the IASB explores disclosures alternatives that could help for a better transparency of the estimates made or their achievements. Such disclosures could provide more transparency and more discipline in relation to being over-optimistic by the management. As the terminal value has the most significant impact on the VIU and therefore the recognition of an impairment loss, transparency on the assumptions relating to the terminal value are key. Additional disclosure requirements on the terminal value, in addition to those included in paragraph 134 of IAS 36, such as disclosures that provide greater clarity on with which level of cash flows terminal value is calculated or sensitivity analysis on terminal value might be required. There may alternatively be disclosures that provide additional information on assumptions over the period for which management has projected cash flows based on financial budgets. These information requirements could relate to the growth rate within the period over which management has projected cash flows based on financial budgets/forecasts. Other disclosures could refer to disclosures on achievements of previous estimations on a qualitative or quantitative basis, which could make it transparent whether the management is over-optimistic. Additional disclosures on assumptions would make management estimates more transparent and would, therefore, allow a better understanding. In addition, disclosures of the present performance, such as current cash flows or present relevant margins could be inquired. The latter could provide information to the users to do estimations and projections themselves.

113 During the various outreach events some participants raised concern about such disclosures. They argued, mainly, that there are already significant disclosure requirements and that it is costly. In relation to the disclosures on achievements of previous estimations they noted that this could provide users a wrong message, if forecasts were not reached. To provide information to the growth rate within the detailed budgeting period was considered commercial sensitive information. In relation to the disclosure of the present performance, they indicated that it might not be appropriated, as users would always miss additional information and they might not do their projections in a reliable manner.

114 EFRAG acknowledges that these disclosure alternative might raise implementation issues but it considers that the IASB should explore whether the disclosure alternatives suggested in paragraph 112 or other related disclosures as deemed appropriate by the IASB could help in mitigating the risk of management over-optimism.

Other aspects of IAS 36 the IASB could consider - triggering events

115 EFRAG notes from outreach , some respondents provided the view that improvements on the guidance for identification of impairment testing trigger events would help to recognise impairment losses on goodwill on a timely basis. Also, an increase in the transparency of the assessments made by management to determine whether there are indications of impairment, would enable users to gain a better understanding of the company and its risks and to increase effectiveness in assessing whether the assumptions used by management are too optimistic. In addition, our respondents consider, as suggested in paragraph 4.34 of the DP, that IASB's proposed disclosures on the subsequent performance of an acquisition help to better identify triggering events for a potential impairment of goodwill. Therefore, EFRAG considers that the IASB should explore improvements on the guidance for identification of impairment testing trigger events such as a more granular set of indicators or the requirement to disclose the assessment made by the management on whether there are trigger events that would lead to the impairment test calculation. These disclosures are of greater relevance if the indicator only approach is adopted.

Other aspects of IAS 36 the IASB could consider - guidance in relation to disposals of goodwill

116 Similar to the guidance in relation to the reallocation of goodwill, the IASB could also consider enhancing the guidance in relation to disposals of goodwill. If an underperforming business is sold, the current guidance might lead to a situation under which the goodwill related to that business or the synergies that were expected to be realised when acquiring this business remain, as they are part of the goodwill recognised in the accounts of the selling entity. EFRAG acknowledges that goodwill cannot be sold. However, the current approach relies on a relative value approach at the time of disposal and this does not have a strong conceptual basis, as it is rather a convention and may leave room for opportunistic behaviour. Further consideration is necessary to avoid that goodwill will remain in the accounts of the selling entity, without realising any benefits expected.

Other aspects of IAS 36 the IASB could consider – projections on reasonable and supportable basis

117 In relation to the proposal from a constituent of obtaining additional guidance on what is a reasonable and supportable cash flow projection (IAS 36 paragraph 33), EFRAG considers that it merits to explore whether additional guidance that reduces the existing subjectivity in both concepts could be developed as long as the principle-based approach of the standards is not compromised. The guidance of what is reasonable and supportable information on the measurement of expected credit losses in appendix B of IFRS 9 *Financial Instruments* could serve as a basis for further developing what is a reasonable and supportable cash flow projection.

Question 7

Paragraphs 3.86–3.94 of the DP summarise the reasons for the IASB's preliminary view that it should not reintroduce amortisation of goodwill and instead should retain the impairment-only model for the subsequent accounting for goodwill.

(a) Do you agree that the IASB should not reintroduce amortisation of goodwill? Why or why not? (If the IASB were to reintroduce amortisation, companies would still need to test whether goodwill is impaired.)

(b) Has your view on amortisation of goodwill changed since 2004? What new evidence or arguments have emerged since 2004 to make you change your view, or to confirm the view you already had?

(c) Would reintroducing amortisation resolve the main reasons for the concerns that companies do not recognise impairment losses on goodwill on a timely basis (see Question 6(c))? Why or why not?

(d) Do you view acquired goodwill as distinct from goodwill subsequently generated internally in the same cash-generating units? Why or why not?

(e) If amortisation were to be reintroduced, do you think companies would adjust or create new management performance measures to add back the amortisation expense? (Management performance measures are defined in the Exposure Draft General Presentation and Disclosures.) Why or why not? Under the impairment-only model, are companies adding back impairment losses in their management performance measures? Why or why not?

(f) If you favour reintroducing amortisation of goodwill, how should the useful life of goodwill and its amortisation pattern be determined? In your view how would this contribute to making the information more useful to investors?

EFRAG's response

Option 1 – Improve impairment test, if not possible at reasonable cost – go for amortisation

EFRAG acknowledges the conceptual and practical arguments for both impairment only model and reintroduction of amortisation and notes that more and more voices are raised in favour of the latter mainly for practical reasons. However, acknowledging conceptual strength of the impairment model and considering that an accounting policy should only be changed if it provides reliable and more relevant information, EFRAG suggests the IASB further explore improvements to existing impairment test. Should the IASB reach a conclusion that the proposed improvements could not address the identified existing shortcomings of the impairment model at a reasonable cost, EFRAG is of view that the amortisation of goodwill should be reintroduced. The amortisation should be accompanied by the indicator-only impairment model.

Option 2 – Go for amortisation

EFRAG acknowledges the conceptual and practical arguments for both the impairment only model and reintroduction of amortisation and notes that more and more voices are raised in favour of the latter. EFRAG agrees with the IASB conclusion that the existing impairment test cannot be significantly improved at a reasonable cost and considers that the proposed new disclosure would not be sufficient to address the identified shortcomings. Therefore, EFRAG is of view that the IASB should consider the reintroduction of goodwill amortisation as a simple, transparent and cost-effective solution. The amortisation should be accompanied by the indicator-only impairment model.

Option 3 – Report only observations

EFRAG acknowledges the conceptual and practical arguments for both impairment only model and reintroduction of amortisation and notes that more and more voices are raised in favour of the latter mainly for practical reasons. However, acknowledging conceptual strength of the impairment model and considering that an accounting policy should only be changed if it provides reliable and more relevant information, EFRAG suggests the IASB further explore improvements to existing impairment test and any cost and consequences from reintroducing amortisation. That includes aspects of useful life, amortisation method and transitional provisions. During the outreach it was mentioned that companies would be able to estimate a useful life for goodwill based on the information at acquisition date. Such estimation should be caped.

EFRAG recommends to accompany the amortisation method by the (yearly) impairment test. Impairments might be triggered for different reasons. Therefore, impairment testing remains relevant. Thuse, improvements to the impairment testing are relevant and necessary.

118 EFRAG acknowledges the controversial nature of the question of whether the impairment-only model should be kept subject to suggested improvements or should the amortisation of goodwill be reintroduced and that many valid arguments exist in both camps.

119 EFRAG notes that the IASB might consider reintroduction of amortisation, if it would not be impossible to significantly improve the IAS 36 goodwill impairment model at a reasonable cost.

120 EFRAG highlights that a majority of participants in EFRAG's outreach events as well a majority of comment letters received have been in favour of reintroduction of amortisation of goodwill. There has been always some (a majority) in favour of the impairment only approach for conceptual reasons and some others in favour of amortisation. From the first group a shift can be observed. Because of this shift for practical reasons now the amortisation approach seems to have a majority in Europe.

121 The respondents agreed with the IASB conclusion that impairment model was not working as intended and cannot be improved at a reasonable cost, thus amortisation was considered a practical solution. From conceptual point of view those respondents considered goodwill to be (partly) a wasting asset which should be amortised to reflect its consumption.

122 The amortisation would also provide a mechanism to eliminate increasing goodwill balances from the balance sheet, that, as some argue, do not reflect the incremental value of the acquired business a couple of years after acquisition. It would avoid the volatility in profit or loss caused by impairment charges.

123 Respondents experience over the last years shows that impairments are recognised sometimes too little and too late (shielding and management over-optimism are hard to avoid) and that goodwill balances on the balance sheet are rising and reach sometimes the level of equity, or beyond. These facts have moved, for practical reasons, the majority of the respondents in favour of reintroduction of amortisation. Respondents refer to:

(a) Amortisation represents a more pragmatic, cost-effective and standardised convention for the subsequent accounting for goodwill. Amortisation would mitigate the effects of shielding and management over-optimism and likely reduce the magnitude of any necessary impairments and could therefore take significant pressure off the impairment test itself.

(b) If goodwill amortisation were to be reintroduced, some of the current issues of identifying separately intangible assets could be solved by allowing some intangible assets acquired in a business combination to be subsumed in goodwill. In that regard it is noted that the identification of intangible assets acquired in a business combination was introduced as a consequence of the introduction of the impairment-only approach. In addition, amortisation would be more consistent with the accounting requirements for most other non-current assets and amortisation would allow entities to convey information (e.g. the useful life) of the components of goodwill.

(c) Scepticism that the existing impairment-only approach should remain unchanged and that improvements to disclosures (although very important) could suffice, because these alone cannot address the existing shortcomings, acknowledged by the DP itself. In addition, the existing impairment-only model is not sufficiently enforceable and auditable.

(d) The conceptual design of the impairment test has prevented excessive impairment losses during the COVID-19 pandemic. The conceptual design allows assumptions leading to optimistic terminal values which prevent an impairment loss even in economic downturns.

(e) It would be prudent to prevent the (observable) constant rise in goodwill.

124 Some of the respondents acknowledged that both approaches had their advantages and disadvantages and absence of the new compelling evidence to support one of them.

125 A few respondents, were in favour of keeping the existing impairment model on the grounds that the impairment test was the only conceptually correct model, that

problems lied within its application and that it provided relevant and useful information to users and investors. These respondents also noted that no new arguments were provided to justify a change. In their view, the impairment model worked as intended and no significant facts or circumstances were identified that would lead to reconsider the conceptual arguments.

126 A user organisation did not regard testing goodwill for impairment to be either robust or desirable. Most of the members did also not support the reintroduction of goodwill amortisation. Some participants suggested that it would be more meaningful for the acquirer to assess the market value of the acquired business on an annual basis and compare it to the original transaction. Any loss in value would result in the goodwill being adjusted downward. The organisation also proposed to just leave goodwill on the balance sheet in perpetuity unless the business unit is subsequently closed or sold.

127 There was also a proposal of accounting policy choice between amortisation and impairment model and the views against such a choice as negatively impacting comparability between the entities.

128 EFRAG considered the variety of responses received with the arguments for and against the reintroduction of amortisation including the shortcomings from the amortisation method and observed that some have the view that, although amortisation model has arguably less strong conceptual basis compared to impairment-only model, it does have significant advantages in terms of simplifications of goodwill accounting, addressing ‘too little too late issue’, improving comparability between entities growing organically and by acquisition, absence of procyclical effects.

129 The reintroduction of amortisation will take pressure away from the impairment test and would allow to simplify and improve it as described in EFRAG’s response to the Question 6 above. Many respondents suggested that amortisation of goodwill should be accompanied by either an indicator-only impairment model or by annual quantitative impairment test. Such approach would also be consistent with the current accounting for other intangible assets.

130 Although EFRAG thinks that the IASB should further explore whether the current impairment test can be made more effective, it has reservations that an impairment-only model could be significantly improved at a reasonable cost and that proposed new disclosure requirements would be sufficient to address all the identified shortcomings.

131 EFRAG also acknowledges arguments supporting the impairment-only model, such as that goodwill is non-wasting asset and an indicator for the value of the future free operating cash flows and future economic benefits, some of which could have indefinite lives (like access to markets for example). It is part of “invested capital” and determines whether a reporting entity is profitable or not.

132 The impairment test holds management to account, better reflects the economic reality and the stewardship and accountability objective of financial reporting whereas an amortisation charge is regarded by some as an arbitrary value which has no value relevance and will be ignored by investors.

133 On the other hand, the amortisation expense will represent an arbitrary figure which will provide little if any relevant information to users and would fail to provide information whether an acquisition was successful which is inconsistent with the objective of the IASB project.

134 It should be noted that the cost of changing the existing model is likely to be high and the cost-benefit analysis of the switch to amortisation should be carried out

before making a decision. The transitional arrangements such as retrospective or prospective application should be discussed.

Option 1 – Improve impairment test, if not possible at reasonable cost – go for amortisation

135 Taking into account the above, EFRAG acknowledges the conceptual and practical arguments for both impairment only model and reintroduction of amortisation and notes that more and more voices are raised in favour of the latter. However, acknowledging conceptual strength of the impairment model, EFRAG suggests the IASB further explore improvements to existing impairment test. Should the IASB reach a conclusion that the proposed improvements could not address the identified existing shortcomings of the impairment model at a reasonable cost, EFRAG is of view that the amortisation of goodwill should be reintroduced to mitigate the identified shortcomings detected during the PIR of IFRS 3.

Option 2 – Go for amortisation

136 Taking into account the above, EFRAG acknowledges the conceptual and practical arguments for both impairment only model and reintroduction of amortisation and notes that more and more voices are raised in favour of the latter. EFRAG agrees with the IASB conclusion that the existing impairment test cannot be significantly improved at a reasonable cost and considers that the proposed new disclosure would not be sufficient to address the identified shortcomings. Therefore, EFRAG is of view that the IASB should consider the reintroduction of goodwill amortisation as a simple, transparent and cost-effective solution.

Option 3 – Report only observations

137 EFRAG acknowledges the conceptual and practical arguments for both impairment only model and reintroduction of amortisation and notes that more and more voices are raised in favour of the latter mainly for practical reasons. However, acknowledging conceptual strength of the impairment model and considering that an accounting policy should only be changed if it provides reliable and more relevant information, EFRAG suggests the IASB further explore improvements to existing impairment test and any cost and consequences from reintroducing amortisation. That includes aspects of useful life, amortisation method and transitional provisions. During the outreach it was mentioned that companies would be able to estimate a useful life for goodwill based on the information at acquisition date. Such estimation should be caped.

138 EFRAG recommends to accompany the amortisation method by the (yearly) impairment test. Impairments might be triggered for different reasons. Therefore, impairment testing remains relevant. Thus, improvements to the impairment testing are relevant and necessary.

Question to EFRAG Board:

139 Do you prefer the amortisation to be better accompanied by the indicator-only approach or by the full-scale annual impairment test?

140 Over the past eight years, EFRAG has run several consultations on goodwill impairment and amortisation.

(a) In 2012, EFRAG issued the questionnaire: *Goodwill impairment and amortisation – questionnaire* together with the OIC.

(b) In 2014, EFRAG issued the discussion paper: *Should Goodwill still not be amortised? – Accounting and Disclosure for Goodwill* together with the OIC and the ASBJ.

(c) In 2016, EFRAG issued the quantitative study: *What do we really know about goodwill and impairment?*

(d) In 2017, EFRAG issued the discussion paper: *Goodwill Impairment Test: Can It Be Improved?*

141 A short summary of the proposals and conclusions obtained in these consultation documents and the replies provided by respondents are included in Appendix II of this letter. In these consultations, constituents have provided arguments either in favour of amortising goodwill or in favour of the current impairment-only approach.

142 During its consultation period EFRAG has performed extensive outreach activities with its constituents which provided the additional arguments both in favour and against the reintroduction of amortisation.

List of additional arguments in favour of reintroduction of amortisation received as feedback from EFRAG consultation

143 The following arguments were provided:

(a) Goodwill is (partly) a wasting asset and the amortisation would reflect goodwill consumption. It is also a practical solution that targets goodwill directly unlikely to impairment test for cash generating units.

(b) The amortisation represents a more pragmatic, cost-effective and standardised convention for the subsequent accounting for goodwill. Amortisation would mitigate the effects of shielding and management over-optimism and likely reduce the magnitude of any necessary impairments and could therefore take significant pressure off the impairment test itself.

(c) The results of recent studies[1] and research suggest that the impairment-only model does not reflect the economic life of goodwill, that in some cases the implicit lifetime of goodwill reaches 100 years and more, that the value relevance of goodwill rapidly decreases with age and that impairment-only model provides a potential for earnings management. The amortisation would provide a simple mechanism to eliminate increasing goodwill balances from the balance sheet.

(d) Amortisation of goodwill could reduce volatility in profit or loss as it reduces the risk of less predictable impairment losses. In addition, amortisation could provide to preparers the opportunity to convey information about the components of goodwill (see paragraphs 204 - 207).

(e) The impairment-only approach reinforces the cyclicality of net income. It is normal that the average profitability is higher in economic upturns than in downturns. When goodwill is expensed only through impairments, the losses tend to accumulate in economic downturns and this effect will exacerbate the normal cyclicality. With amortisation, the accounting charges would be more evenly distributed over upturns and downturns.

(f) The measurement of recoverable amount is often highly sensitive to unverifiable assumptions about the terminal growth rate. Amortisation would relax this concern, slightly improving the level of verifiability (for example some could argue that it is easy to verify whether the goodwill amortisation is calculated correctly).

(g) Scepticism that the existing impairment-only approach should remain unchanged and that improvements to disclosures (although very important)

[1] Patloch-Kofler and Roider (2020), ASBJ and HKICPA Staff paper (ASAF meeting, April 2020, AP 1A); Bugeja and Gallery (2006), Ojala et al (2007)

could suffice, because these alone cannot address the existing shortcomings, acknowledged by the DP itself. In addition, the existing impairment-only model is not sufficiently enforceable and auditable.

(h) The amortisation model would remove the differences between companies growing organically and by acquisition and therefore would improve the comparability.

(i) If goodwill amortisation were to be reintroduced, some of the current issues on identifying separately intangible assets could be solved by allowing some intangible assets acquired in a business combination to be subsumed in goodwill. In that regard it is noted that the identification of intangible assets acquired in a business combination was introduced as a consequence of the introduction of the impairment-only approach. In addition, amortisation would be more consistent with the accounting requirements for most other non-current assets and amortisation would allow entities to convey information (e.g. the useful life) of the components of goodwill.

(j) According to some, goodwill does not represent anything ‘real’ but is an accounting construct. For example, a portion of goodwill may result from the effects of deferred tax liabilities or as a result of some mismatching. It could even be argued that as goodwill is a residual value, it is not really an asset. It is therefore not useful to have goodwill on the statement of financial position and goodwill should therefore be amortised for it to be gradually removed from the statement of financial position.

List of additional arguments in favour of the impairment-only approach received as feedback from EFRAG consultation

144 The following arguments were provided:

(a) Goodwill is neither a wasting asset with a finite useful life nor an accounting construct but, on the contrary, a genuine “asset representing the future economic benefits arising from the assets acquired in a business combination that are not individually identified and separately recognised” (IFRS 3). It is therefore not possible to predict either the useful life of acquired goodwill or an amortisation pattern, unlike other intangible and tangible assets, and this makes any amortisation charge at best completely arbitrary, and likewise also the remaining balance sheet value.

(b) Goodwill is part of the acquisition price paid and is therefore an indicator for the value of the future free operating cash flows (at least seen through the eyes of the acquirer). Goodwill is an asset, is part of “invested capital” and determines thus whether a reporting entity is profitable or not.

(c) Amortisation would result in the statement of profit or loss (and reported EPS) being less useful for predicting future profitability. This is because, for a period of time, both the cost of acquiring the goodwill in the form of amortisation expenses and the cost of maintaining the acquired goodwill (which cannot be capitalised) will affect profit or loss.

(d) The assumptions used in calculating goodwill amortisation (for example the useful life) are not particularly verifiable, and therefore, some could argue that the goodwill impairment test is more verifiable.

(e) Amortisation would not properly reflect the costs related to the benefits generated in an acquired business, particularly not if the useful life of goodwill is indefinite. The impairment approach would be useful to provide information about whether the management has paid too much when acquiring an entity or whether the acquisition meets the expectation.

(f) If goodwill is considered an accounting convention, goodwill amortisation would equally not represent any economic factors. It would therefore not be useful to include goodwill amortisation in the statement of profit or loss.

(g) 'Too little too late' is not an issue pervasive enough to trigger a change in the accounting for goodwill and there is no evidence at this stage to conclude that the test fails to provide timely information.

(h) Management judgements and estimates provide useful information to users about how an entity's management views its business and how it thinks business will unfold—this should not be conflated with management's bias and overoptimism.

(i) If goodwill is reduced in value by arbitrary amortisation over time, the value of an impairment charge will only partially reflect the impairment event itself. This conveys less relevant information to the investors, and it provides a poorer basis for management to be accountable.

(j) The argument that amortisation provides useful information about the consumption of goodwill depends on the presumption that entities would not apply a default amortisation period, even when the maximum life is rebuttable. However, previous experience suggests that many entities did use the rebuttable presumption of a maximum life as a default period.

(k) Preparers, auditors and users have got used to the existing treatment of goodwill, and any changes to this are likely to be costly. No cost-benefit analysis of the switch to amortisation has been carried out.

(l) The implications and cost of the reintroduction of amortisation may be so important that the threshold to make that accounting change would be very high. Practical arguments supporting amortisation are unlikely, alone, to exceed that threshold.

145 For many of the arguments presented above in favour of amortisation and the current impairment-only approach, there are also counter arguments. For example, while it can be argued that the impairment-only approach reinforces the cyclicality of net income, it can also be argued that the purpose of financial reporting should be to provide useful information about an entity – not to smooth economic downturns. Another example relates to how goodwill amortisation could impact a level playing field in bidding wars. For example, if IFRS would require goodwill amortisation, but US GAAP would not. EFRAG has heard both the arguments that:

(a) Companies reporting under accounting standards that would require goodwill to be amortised (in addition to being subject to an impairment test) would have a disadvantage compared to companies reporting under accounting standards that would require an impairment-only approach. The argument provided is that profit or loss under an impairment-only approach would not be affected by the price paid for the acquired entity (unless there would be an impairment). The management in a jurisdiction requiring an impairment-only approach would thus be able to pay a higher price for another business as the price paid would not affect the performance reported based on which the stewardship of the management is assessed.

(b) Companies reporting under accounting that would require goodwill to be amortised (in addition to being subject to an impairment test) would have an advantage compared to companies reporting under accounting requirements that would require an impairment-only approach. This is because when goodwill is amortised, the likelihood of an impairment loss decreases. While amortisation cost reported in financial statements are considered as "normal" costs, impairment losses are considered as a sign that the management has purchased a business at a too high price (i.e. the management has failed). Companies reporting under an amortisation approach (plus an impairment approach) would therefore be able to offer a higher price for another business and is therefore more likely to win a bidding war with companies reporting under an impairment-only approach.

Could amortisation help to solve the "too late" problem?

146 EFRAG considers that, from a practical point of view, amortisation of goodwill may indirectly contribute to avoid everlasting goodwill. Irrespective of the conceptual merits of the amortisation, a systematic path of reduction through amortisation expenses would result in the progressive derecognition of goodwill.

Useful life and amortisation pattern

147 When discussing amortisation, EFRAG notes that it is important to distinguish between different amortisation regimes. For example, it could be considered whether amortisation could be performed on a "voluntary" basis, reflecting the economic nature of the benefits, only for those components of goodwill considered wasting assets. The DP seems only to be discussing goodwill amortisation as something that should be mandatory and is not discussing whether any part(s) of goodwill should be treated/accounted for differently (for example, if any part is considered a wasting asset). Also, it should be considered whether an amortisation approach should specify the amortisation period or a maximum amortisation period

148 Based on the feedback received EFRAG considers that management could estimate the useful life based on a goodwill consumption pattern, the payback period of the investment or on a multiple such as price / current earnings (or price / expected earnings). The amortisation pattern could be estimated on the basis of the realisation of the expected synergies. The determination of useful life of goodwill is not more complex than for many other tangible or intangible asset and could be revised if circumstances change. The accounting standard could set a predetermined maximum as a rebuttable presumption (e.g. 10 years as in the EU accounting directive), if the useful life cannot be reliably estimated in particular circumstances. Straight-line amortisation could be used as a pragmatic, transparent and cost-effective solution.

149 Should the IASB decide to proceed with the goodwill amortisation approach, the transitional arrangements (prospective or retrospective application) should be carefully considered.

Is acquired goodwill distinct from goodwill subsequently generated internally in the same cash-generating units?

150 For accounting purposes, unless the entire approach of allocation to CGUs for impairment under IAS 36 is put into question, which EFRAG would not support at this stage, distinguishing acquired goodwill from subsequently generated internally goodwill is not possible in the view of EFRAG. The impairment test is designed to compare the carrying amount of the CGU with its value-in-use and the latter comprises undistinguished cash flows generated at CGU level by the organised group of acquired and pre-existing assets and liabilities. EFRAG agrees with the IASB that this "shielding" effect is an intrinsic attribute of the current IAS 36 approach.

*Under the impairment-only model, are companies adding b*ack impairment losses in their management performance measures (MPM)?

151 EFRAG observes that recent studies on the use of alternative performance measures, including evidence used by the IASB in developing its recent proposals on the Exposure Draft *General Presentation and Disclosures,* have shown that one

of the most frequent items that companies remove from their profit or loss when illustrating the “normal” or “recurring” net result is the impairment loss on goodwill.

152 The feedback received by EFRAG on this question showed that a slight majority of respondents consider that financial analysts are likely to add amortisation expense back for the purpose of forecasting company earnings and cash flows, in the same way it is currently done for impairments.

153 However, some noted that if amortisation would be reintroduced, new management performance measures would probably not be created since the profit or loss impact of the amortisation was less discretionary, more homogeneous over time and was known from the moment of acquisition.

Age of goodwill

154 EFRAG proposes that the IASB considers the disclosure of the age of goodwill where possible without undue cost or effort if it decides not to reintroduce the amortisation of goodwill. In the absence of amortisation of goodwill, such a disclosure could provide useful information to users about how long the goodwill has been on the statement of financial position. Users have indicated to EFRAG that they find information about ‘new goodwill’ more useful than information about goodwill related to acquisitions made decades ago and by a different management.

Question 8

Paragraphs 3.107–3.114 of the DP explain the IASB’s preliminary view that it should develop a proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill. The IASB would be likely to require companies to present this amount as a free-standing item, not as a subtotal within the structure of the balance sheet (see the Appendix to this Discussion Paper).

(a) Should the IASB develop such a proposal? Why or why not?

(b) Do you have any comments on how a company should present such an amount?

EFRAG’s response

EFRAG does not support the IASB’s proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill.

Total equity excluding goodwill

155 EFRAG agrees that goodwill is different from other assets, for example:

(a) Goodwill cannot be measured directly, and it is therefore initially measured as a residual.

(b) Goodwill cannot be sold separately.

(c) Goodwill is often allocated to groups of cash-generating units for impairment testing whereas other assets are tested for impairment individually or as part of a single cash-generating unit.

156 However, EFRAG considers presenting the subtotal would create confusion as to whether goodwill is an asset or not.

157 If material, goodwill is already presented in a separate line on the balance sheet as part of intangibles according with IAS 1 *Presentation of Financial Statements*. Moreover, as stated in paragraph 3.109 of the DP, the IASB has proposed in its Exposure Draft *General Presentation and Disclosures* to requiring goodwill to be presented as a separate line item on the balance sheet. Thus, EFRAG considers

that if goodwill is presented separately in the statement of financial position, it would be possible for users to calculate total equity before goodwill, if the user would find that useful, without creating confusion about whether goodwill is an asset or not.

158 EFRAG admits that presenting an amount of total equity excluding goodwill could help to highlight those companies for which goodwill is a significant portion of their total equity. However, EFRAG considers requiring companies to disclose in their financial statements this proposed subtotal will be more harmful than beneficial. EFRAG acknowledges that presenting the amount as a free-standing item could be less harmful than presenting it as a subtotal in the statement of financial position itself. However, the manner in which the free-standing amount is presented in the appendix to the DP seems confusing.

159 The amount of goodwill attributable to non-controlling interests may be significant. Under the proposals, it would not be clear what part of the goodwill relates to the reporting entity and what part to the non-controlling interests and some might find it confusing in the absence of information about the allocation of any goodwill.

160 For all the above reasons, EFRAG does not support the IASB's proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill.

Section 4—Simplifying the impairment test

Section highlights according to the IASB's DP

(a) *Performing a quantitative test annually does not necessarily make the test more effective when there is no indicator of impairment.*

(b) *Simplifications would reduce the cost and complexity of performing the test.*

(c) *Some of the same simplifications would also make the value in use more understandable.*

Question 9

Paragraphs 4.32–4.34 of the DP summarise the IASB's preliminary view that it should develop proposals to remove the requirement to perform a quantitative impairment test every year. A quantitative impairment test would not be required unless there is an indication of impairment. The same proposal would also be developed for intangible assets with indefinite useful lives and intangible assets not yet available for use.

(a) Should the IASB develop such proposals? Why or why not?

(b) Would such proposals reduce costs significantly (see paragraphs 4.14–4.21 of the DP)? If so, please provide examples of the nature and extent of any cost reduction. If the proposals would not reduce costs significantly, please explain why not.

(c) In your view, would the proposals make the impairment test significantly less robust (see paragraphs 4.22–4.23 of the DP)? Why or why not?

EFRAG's response

EFRAG has reservations about the introduction of an indicator-only approach.

Indicator-only approach

161 EFRAG welcomes the IASB's efforts to investigate (once it was concluded that the impairment test could not be more effective at recognising impairment losses on goodwill on a timely basis at a reasonable cost) whether it could simplify the test without making it significantly less robust.

162 EFRAG agrees that, when appropriate, an indicator-only approach would have the potential to bring the following benefits:

(a) it would reduce complexity and, if amortisation was also introduced, it would help to improve consistency within IAS 36 with the accounting treatment of intangible assets with definite lives; and

(b) allow cost savings for preparers by reducing frequency of the test.

163 In making its assessment about the cost savings, EFRAG has considered comments received in response to its discussion paper *Goodwill Impairment Test: Can It Be Improved?* issued in 2017. In this paper, EFRAG consulted on introducing a 'Step Zero' approach similar to US GAAP. The majority of the respondents would generally welcome such an approach to reduce cost and complexity on the quantitative assessment. However, there were also respondents who did not favour the introducing of a 'Step Zero' approach. They were concerned that it would not significantly reduce the operational costs, while it would likely further delay the

recognition of goodwill impairment losses. Moreover, it could be argued that this approach could put pressure on the qualitative assessment (for example auditors or regulators would ask for a strong justification of why there is not an indicator of impairment), and therefore, the cost and complexity of the quantitative assessment would simply shift to the qualitative assessment but overall not be reduced.

164 As noted in the DP, the 'Step Zero' approach is not the same as the indicator-only approach suggested in the DP. However, the results may indicate whether there would be cost savings by introducing an indicator-only approach.

165 EFRAG concurs that is a potential to achieve cost savings in adopting an indicator-only approach, however, has reservations on the IASB's proposal to remove the requirement to perform an annual quantitative impairment test. EFRAG notes that there are cases where it is obvious already from the indicator analysis that there is no need for impairment and as such the detailed calculation would not add useful information to assess the recoverability of the carrying amount. In these cases, EFRAG believes that an indicator-only approach may play a role and the IASB could consider leveraging on what is already in IAS 36 paragraph 99.

Potential implications of an indicator-only approach

166 Should the IASB adopt an indicator-only approach, removing the requirement to perform an annual quantitative test, the discussed problem of management being overoptimistic could be increased as auditors or regulators have no comparison to impairment tests prepared in previous years. Companies normally do not prepare budgets with the intention of covering a sufficient timespan to reach a basis for a terminal value. Budgets are mainly prepared for a period of 3 years, to get to a terminal value might need 5 years or longer. If management's estimation is too optimistic in the event of an impairment triggering event, auditors or regulators may not have the same quality of historical comparative information to the general achievement of goals to assess the current estimate.

167 In this regard, EFRAG also notes that academic research has generally found that goodwill impairment charges have become more value relevant after the impairment-only approach was introduced. A reason for this could be that the impairment test is now performed with more rigour than was the case previously. This could be lost if an indicator-only approach is introduced.

168 EFRAG also notes that introducing an indicator-only approach could result in some loss of information that users of financial statements find useful, such as information about the discount rates, long-term growth rates, profit and capital expenditure assumptions and sensitivities used in the quantitative impairment test. Although if such information is not disclosed for CGUs without goodwill allocated to nor for the entity as a whole, users find this information useful, as it provides granular information about the prospects for a CGU which can support their valuation for the business as a whole, when looking at components. EFRAG understands they would rarely use the goodwill balance in isolation when undertaking this valuation exercise, but this does not negate the usefulness of the current disclosure to them. Linked to the comments elsewhere, EFRAG considers benefits would arise for users if there were greater clarity around the allocation to CGUs which would align with users' perspective around valuation when looking at "sum of the parts" approaches.

169 In conclusion, EFRAG has reservations about an indicator-only approach, as it would expose to a risk to an even lower users' reliance on the results of the impairment test. This could potentially accentuate the 'too little too late' issue and could result in a further loss of information on governance and management stewardship of capital employed (if the 'too little too late' issue is accentuated, it reduces the value of the information these impairment losses provide).

Potential indicators of impairment

170 EFRAG agrees with the IASB that having a robust set of indicators for an indicator-only impairment model is important. EFRAG notes that paragraph 12 of IAS 36 already sets out a non-exhaustive list of indicators. This list includes external and internal sources of information that an entity should consider in assessing whether an asset is impaired such as declines in the value of the asset, significant changes in the environment in which the entity operates that might adversely affect the value of the asset, the entity's market capitalisation and evidence from internal factors that point to a potential decline in the value of the asset.

171 EFRAG noted that its Discussion Paper *Goodwill Impairment Test: can it be Improved? includes* a list of potential indicators of impairment. The possible additions might include a failure to meet the key objectives of the acquisition or macroeconomic and entity specific conditions, such as observable prices for CGU, evolution of entity's actual earnings vs budget, cost factors and changes in management. The IASB is proposing in this DP enhanced disclosure requirements on the performance of acquisitions. EFRAG suggests that the IASB should consider how the information about this performance may provide additional evidence of impairment, and how it can be integrated in a possible amendment to the impairment assessment requirements.

Same relief for other intangible assets

172 EFRAG supports the IASB's target to adopt the same approach for goodwill as well as for other intangible assets with indefinite useful lives and for intangible assets not yet available for use, except of amortisation of assets that are not yet available for use in case amortisation would be introduced. EFRAG agrees that adopting such an approach would:

(a) reduce the scope for accounting arbitrage when different impairment models are applied to goodwill and other types of intangible assets; and

(b) ensure the consistent accounting treatment between intangible assets not yet available for use and tangible fixed assets under development (no mandatory impairment test for both categories).

173 In addition, it would result in a uniform impairment model in IAS 36.

174 With reference to the indicator-only approach, the views reported above on goodwill are equally valid for other intangible assets.

Question 10

The IASB's preliminary view is that it should develop proposals:

(a) to remove the restriction in IAS 36 that prohibits companies from including some cash flows in estimating value in use—cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance (see paragraphs 4.35–4.42 of the DP); and

(b) to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use (see paragraphs 4.46–4.52 of the DP).

The IASB expects that these changes would reduce the cost and complexity of impairment tests and provide more useful and understandable information.

(c) Should the IASB develop such proposals? Why or why not?

(d) Should the IASB propose requiring discipline, in addition to the discipline already required by IAS 36, in estimating the cash flows that are the subject of this question? Why or why not? If so, please describe how this should be done and state whether this should apply to all cash flows included in estimates of value in use, and why.

EFRAG's response

EFRAG supports the IASB' proposal to remove the restriction in IAS 36 that prohibits companies from including cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance. However, additional clarification would be required on whether cash flows from capacity investments are included in the asset enhancements.

EFRAG supports the IASB' proposal to remove the explicit requirement to use pre-tax inputs and pre-tax discount rates to calculate value in use. However, additional clarification would be required on the alignment with IAS 12 *Income Taxes*.

EFRAG supports permitting cash flow projections to include future restructurings and future enhancements to an asset and permitting the use of post-tax inputs in the calculation of value in use.Permitting cash flow projections to include future restructurings and future enhancements to an asset

175 EFRAG supports the IASB' proposal to remove the restriction in IAS 36 that prohibits companies from including some cash flows in estimating value in use—cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance.

176 EFRAG consulted on this issue in its 2017 discussion paper *Goodwill Impairment Test: Can It Be Improved?* Most of the respondents supported the suggestion as it would take into consideration management's views of the business and simplify the impairment test (it would allow companies to use directly their budgets and forecasts, which are likely to include the impact of future restructurings without making artificial adjustments to remove them). A number of respondents, however, called for some level of safeguard against all types of plans and ideas being reflected in the projections. This could, for example, be a requirement that only future restructurings that have been approved by management could be included in the projections. This view is reconfirmed based on the feedback received during the current outreach events on the IASB's DP.

177 EFRAG also considers that the IASB's proposal could eliminate an inconsistency in IAS 36 in the sense that it would capture within the value in use the cash flows that will arise from any existing potential to restructure or enhance an existing asset (or CGU) rather than ignoring this potential and align with the way restructuring cash flows are considered when determining fair value.

178 In addition, to the extent that it allows to adopt cash flow estimations closer to the managerial forecasts in the business plan, EFRAG agrees with the DP that the proposal:

(a) reduce cost and complexity;

(b) make the impairment test easier to understand; and

(c) make the test easier to perform and therefore could make the impairment test easier to audit and enforce.

179 To the extent that it allows to adopt cash flows estimation closer to the managerial forecast in the business plan, EFRAG agrees with the IASB that this proposal might make the impairment test less prone to error because estimates of value in use would probably be closer to cash flow projections which are regularly prepared,

monitored and used internally for decision-making, rather than forecasts that are produced solely for external financial reporting once or twice a year.

180 EFRAG notes that different interpretations of the proposal exist on whether it allows other cash flows (in- or outflows) used internally for estimations to be included in the value in use calculation (for example cash flows from capacity or productivity investments to enhance the asset´s performance). In the view of EFRAG it should be clarified that such cash flows could be included to ensure that value in use calculations are based on cash flow projections which are prepared and monitored internally.

Permitting the use of post-tax inputs in the calculation of value in use

181 EFRAG considers that a pre-tax discount rate could be hard to understand and that it does not provide useful information because this rate is not observable and is generally not used for valuation purposes. The current value of an asset is regarded and understood as a post-tax measure which is more directly observable.

182 Therefore, EFRAG supports the IASB's proposal to remove the explicit requirement to use pre-tax inputs and pre-tax discount rates to calculate value in use. EFRAG considers that this proposal would reduce the cost of the goodwill impairment test; provide more useful information; and make the test more understandable. In addition, using post-tax discount rates and post-tax inputs would be more consistent with other IFRS Standards.

183 EFRAG notes that this proposal would simplify the calculation of value in use and reduce the cost when companies only have observable post-tax discount rates for an asset/CGU. Companies usually use weighted average cost of capital (WACC) as a starting point for determining the discount rate, and the WACC is typically a post-tax rate. The relevance of the calculation would not be affected, because both basis (post and pre-tax) should result in the same recoverable amount when the pre-tax rate is adjusted to reflect the timing of the creation and reversal of temporary differences.

184 EFRAG also consulted on this issue in its 2017 discussion paper *Goodwill Impairment Test: Can It Be Improved?* Almost all respondents supported allowing the use of a post-tax rate.

185 However, the discussion paper also highlighted that allowing a post-tax basis could raise some issues. For example, it would be unclear if this would have implications for the amount of tax that should be allocated to the different CGUs. Moreover, since the estimates of future cash flows should include cash inflows or outflows from income tax receipts or payments, a number of practical questions would arise (as noted in paragraphs BCZ81 to BCZ84 of the Basis for Conclusions of IAS 36[2]), such as how deferred taxes should be reflected in the future cash flows or if the carrying amount of the CGU should be adjusted. The IASB would accordingly have to provide guidance on these issues in order to avoid unintended consequences.

[2] The Basis for Conclusions in IAS 36 (paragraphs BCZ81 and BCZ82) explains the two components of future tax cash flows that can affect recoverable amount, and notes that to avoid 'double-counting' the future tax consequences of temporary differences are not considered in determining recoverable amount.

Question 11

Paragraph 4.56 of the DP summarises the IASB's preliminary view that it should not further simplify the impairment test.

(a) Should the IASB develop any of the simplifications summarised in paragraph 4.55? If so, which simplifications and why? If not, why not?

(b) Can you suggest other ways of reducing the cost and complexity of performing the impairment test for goodwill, without making the information provided less useful to investors?

EFRAG's response

EFRAG supports the IASB's preliminary view to not develop the following proposals:

(a) Adding more guidance on the difference between entity-specific inputs used in value in use and market-participant inputs used in fair value less costs of disposal.

(b) Mandating only one method for estimating the recoverable amount of an asset or requiring a company to select the method that reflects the way the company expects to recover an asset.

(c) Allowing companies to test goodwill at the entity level or at the level of reportable segments.

However, EFRAG does not support the IASB's view to not add further guidance on allocating goodwill to cash-generating units.

186 EFRAG welcomes the IASB's effort trying to develop further simplification to the impairment test. However, EFRAG supports the IASB's view to not develop the following proposals:

(a) Adding more guidance on the difference between entity-specific inputs used in value in use and market-participant inputs used in fair value less costs of disposal;

(b) Mandating only one method for estimating the recoverable amount of an asset (either value in use or fair value less costs of disposal) or requiring a company to select the method that reflects the way the company expects to recover an asset; and

(c) Allowing companies to test goodwill at the entity level or at the level of reportable segments rather than requiring companies to allocate goodwill to groups of cash-generating units that represent the lowest level at which the goodwill is monitored for internal management purposes.

187 EFRAG has reached the above view because:

(a) EFRAG agrees with the DP that the guidance in IAS 36 and IFRS 13 is sufficient for preparers.

(b) In its 2017 discussion paper *Goodwill Impairment Test: Can It Be Improved?* EFRAG consulted on a single calculation approach: fair value less costs of disposal ('FVLCD') or Value in Use ('VIU'). The majority of the respondents that replied to this question did not support the introduction of a single method for determining the recoverable amount as it would not result in a significant simplification (companies are not currently required to calculate both VIU and fair value less cost of disposal ('FVLCD')) and that both VIU and FVLCD were considered relevant for the calculation of the recoverable amount. The view was reconfirmed in feedback received from outreach activities performed by EFRAG during the consultation phase of the DP.

(c) EFRAG agrees with the DP that impairment losses are often late and inadequate as a result of inadequate allocation of goodwill to the cash-generating units ('CGUs') (either at too high level or due to its constant reallocation to the most profitable CGU).

Adding guidance on identifying cash-generating units and on allocating goodwill to cash-generating units

188 As noted in EFRAG's response to Question 6, EFRAG expects that generally, the shielding effect is greater when goodwill is allocated to groups of cash generating units containing several cash generating units.

189 As indicated, EFRAG would agree that goodwill impairment losses may be used opportunistically by management. For that to happen, it would be necessary that management to some extent can make excessive use of judgement when assessing whether impairment losses would be recognised. As noted above, it can also be done by means of allocating goodwill to CGUs.

190 For the above reasons and as indicated in EFRAG's response to Question 6, while EFRAG does not have specific suggestions on how to design the impairment test more effectively, it suggests that the guidance for how goodwill is allocated to cash generating units could be amended to improve how the test is applied in practice. The IASB could assess whether introducing additional guidance on the allocation of goodwill to CGUs could result in a more effective application of the impairment test (for further details, refer to EFRAG's response to question 6).

191 In addition, this proposal could provide useful information for users. Users find information on how goodwill has been allocated to cash generating units useful, as it provides granular information about the prospects for a CGU which can improve their valuation for the business as a whole when looking at components.

Adding guidance on including the cash outflows and carrying amount of lease liabilities in the calculation of the value in use

192 EFRAG has been informed that there is divergence currently in practice regarding the inclusion of lease liabilities (and the cash outflows) in a CGU when calculating value in use. Some consider that the cash flows related to the lease, that are not related to the lease liability, should be included in the cash flows considered when calculating value in use, whereas the cash flows related to the lease liability should not. Preparers find it costly to separate the cash flows related to the liability and other cash flows related to the lease when the lease liability is not included in the calculation of the value in use of a CGU.

193 Therefore, EFRAG has received the suggestion that the IASB should simplify the impairment test by stating that when calculating value in use, the lease liabilities and the related cash outflows could be included in the calculation of the value in use. EFRAG notes that such an amendment may raise questions around the treatment of other financing activities that are similar in nature to leases and so a broader topic may need to be considered in addressing this issue.

Section 5—Intangible assets

Section highlights according to the IASB's DP

(a) *Does separate recognition of all identifiable intangible assets in a business combination provide useful information?*

(b) *The IASB found no compelling evidence that a change in the recognition requirements is needed.*

(c) *Stakeholders who want the IASB to consider broader changes to the accounting for intangible assets can explain why in the 2020 Agenda Consultation.*

Question 12

Paragraphs 5.4–5.27 of the DP explain the IASB's preliminary view that it should not develop a proposal to allow some intangible assets to be included in goodwill.

Do you agree that the IASB should not develop such a proposal? Why or why not?

(a) If you do not agree, which of the approaches discussed in paragraph 5.18 should the IASB pursue, and why? Would such a change mean that investors would no longer receive useful information? Why or why not? How would this reduce complexity and reduce costs? Which costs would be reduced?

(b) Would your view change if amortisation of goodwill were to be reintroduced? Why or why not?

EFRAG's response

In considering the accounting for intangible assets, EFRAG thinks that it is necessary that the IASB takes into account the concerns of investors who want to compare companies that grow by acquisitions more easily with those that grow organically. EFRAG would therefore recommend that the issue on whether some intangible assets could be included in goodwill should be considered in a second phase of the project together with a revision of IAS 38.

194 EFRAG has received feedback that recognising intangible assets acquired in a business combination separately from goodwill might be costly and complex. Furthermore, some of these intangible assets tend to be ignored (at least by some users) particularly if the measurement is perceived to be too subjective. It is accordingly questionable whether the benefits of identifying some intangible assets outweigh the costs.

195 On the other hand, EFRAG also notes that if additional items are added to goodwill, the goodwill figure might become even less understandable than it is today.

196 EFRAG's view on whether or not some intangible assets could be included in goodwill would depend on what internally generated intangible assets should be recognised.

197 In that regard, EFRAG notes that the IASB has considered it to be outside the scope of the project to address the concerns of investors who want to compare more easily companies that grow by acquisition with those that grow organically.

198 EFRAG, however, acknowledges that including this issue in the project could result in the project taking considerably longer time to complete. This would mean that

useful disclosures about business combinations and simplifications to the impairment test could be delayed.

199 EFRAG would therefore recommend that the issue on whether some intangible assets could be included in goodwill should be considered in a second phase of the project. This phase of the project could thus take into account changes on how to account for internally generated intangible assets that could be introduced if the IASB would decide to revise IAS 38. The project could also be informed by EFRAG's ongoing pro-active work on the project *Better Information on Intangibles*.

Section 6—Other recent publications

Question 13

IFRS 3 is converged in many respects with US generally accepted accounting principles (US GAAP). For example, in accordance with both IFRS 3 and US GAAP for public companies, companies do not amortise goodwill. Paragraphs 6.2–6.13 of the DP summarise an Invitation to Comment issued by the US Financial Accounting Standards Board (FASB).

Do your answers to any of the questions in the DP depend on whether the outcome is consistent with US GAAP as it exists today, or as it may be after the FASB's current work? If so, which answers would change and why?

EFRAG's response

EFRAG's responses to the questions in the DP do not depend on whether the outcome is consistent with US GAAP. However, EFRAG considers that the IASB outcome could be influenced by the FASB's current work.

Other recent publications – Global convergence

200 EFRAG's responses to the questions in the DP do not depend on whether the outcome is consistent with US GAAP as it exists today, or, probably more important, as it may be after the FASB's current work.

201 EFRAG considers that convergence with the FASB should continue to be a high-level objective. The FASB's current work could influence the decision as convergence reduces the costs of both preparers and users in preparing and analysing financial statements. Convergence also enhances comparability and different approaches for goodwill accounting could also affect the level playing field in mergers and acquisitions (M&A transactions).

202 Based on a limited outreach to M&A professionals, EFRAG understands that if one jurisdiction requires goodwill to be amortised (in addition to impairment) and another jurisdiction only requires goodwill to be subject to an impairment test, it may create a perceived unlevel playing field during M&A bidding wars. Although the effect is only assessed to be moderate by the participants in the limited outreach, it is assessed that the accounting treatment of goodwill would have an effect even when it does not create real economic differences. For that reason, EFRAG considers that the IASB outcome could be influenced by the FASB's current work.

203 EFRAG refers to the concerns around commercial sensitivity of the proposed disclosures in the DP and notes that these could impact perceptions of a level-playing field if the FASB does not introduce similar requirements.

Question 14

Do you have any other comments on the IASB's preliminary views presented in the DP? Should the IASB consider any other topics in response to the PIR of IFRS 3?

EFRAG's response

EFRAG would consider that the DP could have included a discussion on separating goodwill into components although we note the concerns around reliability of allocating amounts to such components. In addition, EFRAG suggest the IASB to develop more guidance on goodwill allocation to divested businesses and reorganisations and to consider the transition considerations if goodwill amortisation is reintroduced.

Discussion on separating goodwill into components

204 EFRAG notes that in IFRSs literature the general approach when accounting for non-current assets is to consider components with different useful lives separately. In the *Conceptual Framework for Financial Reporting*, it is noted that "[i]n principle, each of an entity's rights is a separate asset" (par. 4.11 of the *Conceptual Framework for Financial Reporting*). Either of these could accordingly also be the starting point, but not necessarily the ending point, in relation to goodwill.

205 There could very well be good arguments for considering the unit of account differently when it comes to accounting for goodwill than when accounting for other non-current assets. However, those arguments are only very limited considered in paragraphs 3.105 to 3.106 of the DP.

206 EFRAG notes that the *Conceptual Framework for Financial Reporting* includes eight paragraphs on selecting the unit of account. Such guidance was not included in the Conceptual Framework when IFRS 3 was developed. When reconsidering how to account for goodwill, it would have been natural for the IASB to consider the new aspects of the *Conceptual Framework for Financial Reporting* and describe how these aspects have been considered.

207 In addition, EFRAG indicates that paragraph 3.105 of the DP states that the IASB has not further discussed and considered separating goodwill into components because such an approach is considered complex and subjective. However, this argument could be at odds with the suggestions for enhanced disclosures aimed to provide more detailed information.

Guidance on goodwill allocation to divested businesses

208 EFRAG notes, as highlighted in Question 6 and Question 11, that IAS 36 might not have enough and clear guidance on goodwill allocation to divested businesses (relative value, IAS 36 paragraph 86) and reorganisations (IAS 36 paragraph 87). The current IFRS guidance may, in case a business is divested at a very low amount, allocate an insignificant amount of goodwill to the divested part, even in situations in which a big amount of goodwill was recognised when the divested part was acquired. This is because the relative value would be the basis for the allocation of goodwill. In other cases the guidance could, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of, result in more goodwill being allocated to a divested, reorganised business than might have been initially recognised when the reorganised businesses were acquired. For the reasons mentioned, EFRAG questioned whether the existing guidance is the right one or whether this guidance should be reconsidered. In that sense, EFRAG would suggest adding in IAS 36 explicit

requirement to derecognise goodwill when entities sell a cash generated unit that still has goodwill allocated to it.

Guidance on goodwill allocation to reorganisations

209 Reorganisations include both the situations in which there are reorganisations within/between CGUs and those where there are no real reorganisations, but only a change in how segments are defined for the purpose of the segment reporting. In practice those types of reorganisations result in goodwill being detached from its initial allocation to CGU's. As a result, when an impairment test is performed, it no longer assesses the carrying amount of the goodwill against (only) the future cash flows the goodwill is assumed to affect. Accordingly, the impairment test may become less effective.

210 EFRAG considers that the DP could have discussed whether the guidance on reallocation should only be applied when the cash flow structure has changed. That is, changes in how segments are defined for the purpose of the segment reporting should not affect how goodwill is allocated to cash generating units. EFRAG recognises that tracking goodwill and allocating it properly to cash generating units will require better documentation. However, such documentation should be possible without undue cost.

211 For the reasons provided above, EFRAG suggests the IASB to develop further guidance on goodwill allocation to divested businesses and reorganisations.

Transition: goodwill amortisation

If the IASB would consider re-introducing the amortisation of goodwill, EFRAG recommends that it pays attention to the transition requirements given the potential the impact on profit or loss and/or equity.

Appendix II: Evidence related to goodwill and how to account for goodwill

212 This appendix summarises the information retrieved from previous consultations and papers of EFRAG and other information collected on goodwill amortisation.

Previous consultations of EFRAG

213 Previous studies and discussion papers performed by EFRAG in relation to goodwill include:

(a) *Goodwill impairment and amortisation – questionnaire* issued in 2012. The study was performed in cooperation with the OIC. The results of this questionnaire showed:

(i) Respondents had different views on what goodwill normally consists of.

(ii) Some of the respondents did not use the information on goodwill presented in financial statements whereas others did. Some of the respondents that did not use the information thought that it was too uncertain (unclear what goodwill consisted of or the calculation was considered unverifiable) or did simply not find the information useful for their projections. Other respondents used the reported goodwill or the disclosures when assessing risks, future cash flows and stewardship.

(iii) Respondents, using the goodwill information, used the goodwill amount differently in their analysis depending on what they thought goodwill included.

(iv) Respondents were split in their views on whether the amount of goodwill recognised in the balance sheet or the changes in the amount recognised provided the most relevant information.

(v) Most respondents using the goodwill information, did not treat goodwill acquired in a cash-settled business combination differently from goodwill acquired in a business combination settled by an exchange of shares.

(vi) Some respondents using the goodwill information treated the goodwill figure differently from information about other intangible assets. For example, some:

- amortise goodwill (and review it for impairment);
- require additional disclosures;
- expense goodwill on acquisition;
- immediate offset goodwill against equity;
- account for goodwill similarly to other intangible assets;
- permit recognition of internally generated intangible assets; and
- calculate goodwill as the difference between the book value of equity and the (long-term) market value of equity.

(vii) Some respondents thought the accounting information on the impairment of goodwill was useful, for example, it provided information on key planning assumptions for each CGU. Others noted that users had expected impairment losses before they were recognised in the financial statements, and the information was therefore considered of limited use.

(viii) Most respondents reflected possible future impairment losses on goodwill in their analyses.

(ix) Most respondents did not usually foresee an impairment loss to be recognised after a change in the management.

(x) Some respondents thought that under the current requirements, internally generated goodwill is recognised and that this is inconsistent with IAS 38.

(xi) Some respondents thought there would be conceptual reasons for adopting the same approach for goodwill as for other intangible assets.

(xii) Different views were presented for and against reversing goodwill impairment losses.

(xiii) The questionnaire considered the effects of goodwill impairments in time of the financial crisis. Different views were presented in relation to the effect of goodwill impairments through the economic cycle. Some thought that the effects on the macro economy should not be considered when developing accounting standards. Some thought that the impairment requirements were pro cyclical as:

- no amortisation would lead to higher prices for companies; and
- impairment losses were usually recognised too late when the business prospects were already poor.

(xiv) Most respondents who thought that goodwill impairment losses were procyclical thought that amortisation could reduce the effect.

(xv) Respondents had different views on whether the costs of performing the impairment test were significant and proportionate relative to the importance of the information. Some thought that it was costly and that the information was not particularly useful as:

- it was too subjective;
- acquired goodwill changes into going concern goodwill/internally generated goodwill (and, accordingly, it is not the acquired goodwill that is tested)
- it was not related to the operational performance and frequent impairment losses would just create noise when assessing performance;
- the supporting information in the notes was incomplete; and
- it could result in unbeneficial behaviour of the management of an entity.

(xvi) Some thought the costs could be reduced by:

- allowing/requiring amortisation of goodwill;
- limiting the impairment test to when there would be an indication of impairment;
- reducing the frequency of the impairment test;
- only requiring the impairment test when the book value of equity compared with the market capitalisation of the company would exceed a given threshold;
- introducing a less prescriptive approach;

- introducing a more standardised approach; and
- clarifying the requirements.

(xvii) Some respondents suggested the information could be made more useful by:

- disclosing the total goodwill acquired and internally generated goodwill;
- decomposing changes in value in use; and
- applying a hypothetical value for 'internal goodwill'.

(xviii) Some respondents did not think the requirements should be changed as the information was valuable for users.

(b) EFRAG, OIC and ASBJ Discussion Paper (the 'DP') *Should Goodwill still not be amortised? – Accounting and Disclosure for Goodwill* issued in 2014. This DP concluded that the reintroduction of goodwill amortisation would be appropriate, because it reasonably reflects the consumption of the economic resource acquired in the business combination over time, and can be applied in a way that achieves an adequate level of verifiability and reliability. In addition, the DP concluded that further improvement should also be considered in the area of disclosure requirements.

Most respondents agreed with the main conclusion of the DP that the impairment-only model for acquired goodwill did not provide the most appropriate solution for subsequent measurement of goodwill. These respondents agreed with the preliminary views of the DP that amortisation of goodwill should be reintroduced, but also pointed out that there are areas for improvement in the impairment testing. In commenting on this matter, they referred to various reasons including the fact that amortisation would reasonably reflect the consumption of the economic resources acquired in the business combination and allocate the costs of acquired goodwill to the periods it was consumed. Nonetheless, these respondents provided mixed views on whether the IASB should indicate a maximum amortisation period. Some respondents acknowledged the subjectivity and high level of judgement in determining the useful life of goodwill. However, they believed that the level of subjectivity and judgement was not higher than that of the impairment test.

In general, respondents who supported the amortisation of goodwill considered that the IASB should develop guidance to help preparers determine the useful life of the acquired goodwill. In contrast, a minority of respondents, mostly users, were supportive of the current impairment-only approach. These respondents explained that the amortisation model was fairly meaningless, and it would not be beneficial to users of financial statements. Many respondents considered that the impairment-only approach was a challenge in practice and that there was room to improve the guidance in IAS 36. These respondents identified a number of difficulties related to the current approach and provided some suggestions on what should be improved. When questioned about whether there was a need to improve disclosure requirements on impairment tests, respondents provided mixed views. Some considered that there was room for improvement, while others did not. Nonetheless, respondents emphasised that any additional disclosure requirements should be considered in the context of the overall amount of disclosure requirements, which are already considered extensive. In addition, many respondents highlighted that the relevance of impairment testing for goodwill, and consequently the need for improved guidance and disclosures, would significantly decrease if the IASB reintroduced amortisation.

Many respondents considered that, if the IASB reintroduced amortisation of acquired goodwill, it should require the same for virtually all intangible assets (including those with indefinite useful lives). They also suggested that the IASB reconsider the requirement to recognise separately intangible assets in business combinations, especially when the IASB decides to reintroduce the requirement regarding amortisation of acquired goodwill.

(c) The quantitative study *What do we really know about goodwill and impairment?* was issued in 2016. The study presented an analysis of a sample of 328 European companies. The data showed that:

(i) From 2005 to 2014 the total amount of goodwill recognised increased from 935 billion euros to 1.341 billion euros, with an increase of 43%;

(ii) A small number of companies account for a large proportion of the carrying amount of goodwill. The level of concentration has been decreasing slightly over time;

(iii) The goodwill to total assets ratio has remained fairly stable over the years at approximately 3,7%. The ratio is significantly higher when companies in the financial industry are excluded from the total. The ratio excluding financials decreased gradually from 19,5% in 2009 to 16,6% in 2014;

(iv) The goodwill to net assets (or equity) ratio has been decreasing since 2008, but it was still significant in 2014 (29%);

(v) The amount of impairment losses recognised peaked in 2008 and 2011, years when the performance of the financial markets was negative. On average, impairment losses represented 2,7% of the opening balance of goodwill. Although in 2012 the financial markets were already showing signs of recovery, the level of impairments in 2012 were similar to 2008;

(vi) Impairment losses were significantly concentrated within a small number of companies, particularly in the telecommunications and financial industries;

(vii) Absolute and relative levels of goodwill and impairment losses varied significantly across industries. The carrying amount of goodwill increased for most industries but decreased for telecommunication services. The ratios of goodwill over total assets and goodwill over net assets also varied across industries, with telecommunication services and consumer staples being the leaders. The industries with the biggest impairment charges were telecommunication services, financials and materials.

(d) The EFRAG Discussion Paper *Goodwill Impairment Test: Can It Be Improved?* was issued in 2017. The suggestions included in the paper and constituents' responses are summarised below.

(i) The paper suggested additional guidance on the allocation of goodwill to CGUs (e.g. allocation based on the pre- and post-acquisition fair value of each CGU (or group of CGUs) that is expected to benefit from the acquisition). Respondents provided mixed views on this suggestion. Some would welcome additional guidance as it would bring more direction and discipline to preparers on how to allocate goodwill. However, others considered that IAS 36 already allowed companies to use their judgement to determine an appropriate method to allocate goodwill to the CGUs and that EFRAG's proposals seemed to be a rule-based and driven by anti-abuse concerns. Still, some suggested that the allocation methods proposed in the paper could become part of the illustrative and non-mandatory guidance accompanying IAS 36.

(ii) The paper proposed additional disclosure of information on composition of goodwill (i.e. information (in amounts) about which acquisitions the total amount of goodwill is related to). Many respondents did not support additional disclosures as it would be difficult and onerous to track and assess each individual component of goodwill over time.

(iii) The paper proposed to introduce a 'Step Zero' in the impairment test (a qualitative assessment of the likelihood of an impairment loss). The majority of the respondents generally welcomed the introduction of the Step Zero as the requirements in IAS 36 for the calculation of the recoverable amount are complex, costly and have to be performed at least annually even if there is no indication of an impairment and the CGU has a significant headroom. Those that disagreed with the Step Zero were mainly concerned that it would not significantly reduce the operational costs while likely delaying the recognition of goodwill impairment losses.

(iv) The paper suggested a single calculation approach: fair value less costs of disposal ('FVLCD') or Value in Use ('VIU'). The majority of the respondents that replied to this question did not support the introduction of a single method for determining the recoverable amount as it would not result in a significant simplification (companies are not currently required to calculate both VIU and fair value less cost of disposal ('FVLCD')) and that both VIU and FVLCD were considered relevant for the calculation of the recoverable amount. Nonetheless, many respondents considered that the VIU was the most appropriate method to calculate the recoverable amount and considered that the VIU should be retained if a single method was to be introduced.

(v) The paper proposed to allow consideration of cash flows from future restructurings when testing for impairment. Most of the respondents supported EFRAG's suggestion as it would take into consideration management's views of the business and simplify the impairment test (it would allow companies to use directly their budgets and forecasts, which are likely to include the impact of future. Nonetheless, a number of respondents called for some level of safeguard against including all types of plans and ideas in the projections. A requirement could, for example, be that future restructurings would have to be approved by management before being included in the projections.

(vi) The paper proposed to allow the use of a post-tax rate when testing for impairment. Almost all respondents supported allowing the use of a post-tax rate since companies often conduct the impairment tests on a post-tax basis with an additional iteration simply to derive a pre-tax discount rate. Therefore, the introduction of a choice would simplify the calculation of the VIU and reduce costs.

(vii) Finally, the paper proposed to deduct an accretion amount from the recoverable amount of a CGU for the purpose of the impairment test. The accretion amount would be calculated as the carrying amount of goodwill multiplied by an accretion rate (e.g. the discount rate used for the impairment test). In general, respondents acknowledged the basic assumption underlying the goodwill accretion approach and its objective. However, the majority of the respondents did not support EFRAG's goodwill accretion approach as it would add complexity and subjectivity to the goodwill impairment model. In addition, respondents argued that if acquired goodwill is an asset that is being consumed and decreasing over time, then the discussion should be focused on the reintroduction of goodwill amortisation, which is a simpler approach. Nonetheless, two user representative associations considered that the goodwill accretion approach could be a reasonable compromise to solve the issues related to internally generated goodwill and timeliness of impairments.