

This paper provides the technical advice from EFRAG FR TEG to the EFRAG FRB, following EFRAG FR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG FRB are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

## Goodwill and Impairment – Project Update

### Introduction

- 1 The IASB issued the Discussion paper [Business Combinations – Disclosures, Goodwill and Impairment](#) ('the DP') in March 2020 with a comment period that ended on 31 December 2020.
- 2 The DP included suggestions on improving the disclosures about business combinations by adding information about the strategic rationale and objectives for the acquisition including information about synergies as well as the metrics management plan to use to monitor achievement of those objectives; its subsequent performance; improving the accounting for goodwill by assessing whether the amortisation should be reintroduced and some other targeted improvements/simplifications to the current impairment test including the suggestion to only require a quantitative impairment test of CGUs including goodwill to be performed when there would be an indication of an impairment.
- 3 EFRAG published its [final comment letter](#) in January 2021.

### Objective

- 4 The objective of the session is to provide EFRAG FRB members with an update on the status of the IASB Goodwill and Impairment project. The update will focus on the following IASB tentative decisions:
  - (a) disclosure objectives, disclosure on subsequent performance and expected synergies from a business combination - IASB's tentative decisions taken in September 2022
  - (b) subsequent accounting for goodwill (including whether to reintroduce amortisation of goodwill) – IASB tentative decisions taken in November 2022.
- 5 EFRAG FRB members will be asked for their views on these IASB tentative decisions.

### Background

- 6 The EFRAG FRB received an update on the Goodwill and Impairment project in July 2022. At that meeting EFRAG FRB members discussed developments on the project and the IASB staff recommendations on the proposed disclosure requirements.

#### *IASB tentative decisions so far*

- 7 Since starting its re-deliberations of the proposals in 2021, the IASB has discussed the project at several meetings. A summary of the IASB tentative decisions taken so far is provided in the Appendix.

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- 8 In September 2022, the IASB decided to proceed with an amended version of its preliminary views on the package of disclosure requirements about business combinations.
- 9 In November 2022, the IASB tentatively decided to retain the impairment-only model.

### *FASB project on goodwill and Impairment removed from technical agenda*

- 10 At its meeting on 15 June 2022, the FASB reviewed the package of discussions and decisions taken so far, considered the overall effect on benefits and costs, and decided to deprioritise and remove its project from its technical agenda.

### *EFRAG discussions*

- 11 EFRAG FR TEG and EFRAG Working Groups have discussed all IASB tentative decisions until September 2022. Feedback received on disclosures is included in agenda paper 12-02.
- 12 EFRAG FR TEG will discuss the IASB tentative decisions on subsequent measurement of goodwill at its meeting in January 2023.

## **Next steps**

### *IASB*

- 13 At the IASB December 2022 meeting, the IASB staff will ask the IASB to move the project from the research programme to the standard-setting work plan and ask the IASB to make tentative decisions about some aspects of the project.
- 14 In the coming months in 2023, the IASB will discuss:
  - (a) detailed aspects of the package of disclosure requirements—for example:
    - (i) details of the exemption the IASB tentatively decided on in its September 2022 meeting
    - (ii) the level of aggregation at which entities would disclose information about expected synergies
    - (iii) the management approach to information about subsequent performance of business combinations including for example, whether it is appropriate to identify the information to be disclosed using the information an entity's Chief Operating Decision Maker reviews
    - (iv) the length of time for which to require entities to disclose information about the subsequent performance of business combinations
    - (v) other aspects - for example the scope of entities subject to the disclosure requirements about the subsequent performance of business combinations.
  - (b) The IASB's preliminary views on simplifying the application of the impairment test in IAS 36 *Impairment of Assets*.
  - (c) The IASB's preliminary views on the feasibility of improving the effectiveness of the impairment test of cash-generating units containing goodwill in IAS 36
  - (d) Once the IASB has made tentative decisions on all aspects of the project, the IASB staff will ask the IASB whether the package as a whole meets the project objective and whether it would like to publish an exposure draft setting out its proposals.

**EFRAG**

- 15 The EFRAG Secretariat plan to undertake outreach in early 2023 to test the thresholds for determining a subset of business combinations of what would comprise a 'strategically important' business combination (discussed in agenda paper 12-02).
- 16 The EFRAG Secretariat will also undertake outreach to better understand the application and level of aggregation of the exemption from disclosing information in specific circumstances (discussed in agenda paper 12-02) once more details and the wording of the exemption are known.
- 17 The EFRAG Secretariat will continue to monitor and update EFRAG FR TEG and the EFRAG FRB on a regular basis.

**Question to the EFRAG FRB**

- 18 Do you have any comments on the next steps?

## Appendix – IASB tentative decisions so far

### Summary of the IASB tentative decisions

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

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

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



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<p><i>Improvements to existing IFRS 3 disclosure requirements</i></p>	<p>At its meeting in September 2022, the IASB also tentatively decided:</p> <ul style="list-style-type: none"> <li>• adding the disclosure objectives described in the Discussion Paper to IFRS 3;</li> <li>• adding to IFRS 3 a requirement for an entity to disclose in the year of a business combination quantitative information about expected synergies; and</li> <li>• providing an exemption from disclosing that information in specific circumstances.</li> </ul>	
<p><i>Subsequent accounting for goodwill</i></p>	<p>At its May 2022 meeting, the IASB discussed additional research on:</p> <ul style="list-style-type: none"> <li>• whether it is feasible to estimate the useful life of goodwill and the pattern in which it diminishes; and</li> <li>• the potential consequences of transitioning to an amortisation-based model.</li> </ul> <hr/> <p>In July 2022, the IASB redeliberated its preliminary views on the subsequent accounting for goodwill and whether to reintroduce amortisation of goodwill and discussed disclosures about business combinations and improving the effectiveness of the impairment test in IAS 36.</p> <p>The IASB had a joint meeting with the FASB (education purposes) where both boards discussed various aspects of their respective projects on goodwill and impairment and their tentative decisions (these projects do not constitute a joint project).</p> <hr/> <p>At its October 2022 meeting, the IASB discussed the following:</p> <ul style="list-style-type: none"> <li>• Subsequent accounting for goodwill – Overview of feedback and research; and</li> <li>• Subsequent accounting for goodwill – Possible ways forward.</li> </ul> <hr/> <p>At its meeting in November 2022, the IASB tentatively decided to maintain its preliminary view to retain the impairment-only model for the subsequent accounting for goodwill.</p>	<p>May 2022</p> <p>July 2022</p> <p>October 2022</p> <p>November 2022</p>