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## **Goodwill and Impairment – Additional Outreach Feedback Issues Paper**

### **Objective**

- 1 To provide EFRAG FR TEG members with the feedback received by the IASB Staff and the EFRAG Secretariat on additional outreach performed on the IASB disclosure requirements proposals.

### **Background**

- 2 In September 2021 the IASB Staff was asked to conduct further research on practical concerns raised by stakeholders on the IASB's preliminary views to require entities to disclose information about the subsequent performance of business combinations and quantitative information about any synergies expected from business combinations.
- 3 The IASB staff performed further outreach and analysis, including obtaining feedback from Accounting Standards Advisory Forum (ASAF), Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) meetings in November – December 2021.
- 4 The EFRAG Secretariat in turn conducted additional outreach with users to better understand what information was already provided on business acquisitions, what information was needed by users and the differences between sectors and distribution channels.
- 5 The findings of these outreaches are presented below.

### **Feedback from the IASB outreach**

- 6 The feedback received on additional outreach activities performed by the IASB covered several areas. The views were mixed on most of the topics, confronting users and preparers and sometimes jurisdictions. More details can be found in the [IASB Staff Paper 18A](#).

#### *Usefulness of information*

- 7 While users considered the additional disclosure information provided in the IASB Staff examples as useful to assess management's stewardship, preparers argued that similar information is already provided through press releases and investor relations events at the time of a business combination.
- 8 A few users noted that existing disclosure requirements in IFRS 3 were also useful (for example information about the contribution of the acquired business as required by paragraph B64(q) of IFRS 3).

*What type of business combinations*

- 9 Many users said information is needed for all material business combinations, but some mentioned that the information about significant business combinations only would be sufficient. Different approaches to identifying what is significant were proposed.
- 10 The views on whether CODM was an appropriate level of review for a business acquisition were mixed.

*Do users receive similar information today?*

- 11 Many users said many entities already provide objectives and targets for business combinations in investor presentations and calls. However, they said disclosing the information that would be required applying the preliminary views in financial statements would be useful.

*Level of aggregation of information about expected synergies*

- 12 Most users agreed with the IASB proposals to disclose the expected synergies by nature and considered that more disaggregation could be commercially sensitive. One user, however, suggested to disaggregate the expected synergies by line item.

*Information currently disclosed by entities outside financial statements*

- 13 The IASB Staff reviewed 19 entities reporting under IFRS and 5 entities reporting under US GAAP to identify how they disclose qualitative and quantitative information about business acquisitions.
- 14 All entities disclosed the strategic rationale for a business combination, and almost all qualitatively described the business combination's objective(s).
- 15 As to the quantitative information targets in the year of acquisition and in subsequent periods, including synergies, almost all US entities provided this information whereas the level of disclosures of IFRS reporting entities varied.
- 16 The US entities disclosed the information about expected synergies by line item or at least split between costs and revenues whereas none of the IFRS reporting entities disclosed this information by line item.

*Practical Concerns*

*Commercial Sensitivity*

- 17 Most preparers expressed at least some level of concern about the commercially sensitive nature of information illustrated in the IASB Staff examples. The following areas of the proposed disclosures raised most concerns:
  - (a) Information about employees retention, redundancies, etc;
  - (b) Market plans (for example information about market share or plans to launch a particular product);
  - (c) Target revenue and/or profit;
  - (d) Quantitative information is more useful but more commercially sensitive than qualitative information; and
  - (e) Level-playing field with entities applying US GAAP as it does not require entities to disclose information similar to information that would be required applying the IASB preliminary views.
- 18 The IASB Staff did not observe any geographical or industry trend in views about commercial sensitivity. For example, entities within the same jurisdictions and industries have different views on whether, and to what extent, information included in the staff examples would be so commercially sensitive that it should not be

required. During outreach, it was observed that different individuals within an entity may also have different views about this matter.

*Expected synergies*

- 19 The views on disclosing the information about expected synergies disaggregated by nature of synergies (for example, total revenue synergies) were mixed.
- 20 Those preparers who did not consider these disclosures commercially sensitive said entities already often disclose such information in documents outside financial statements.
- 21 However, many preparers considered that disclosing quantitative information about expected synergies, even if disaggregated only by nature, would be so commercially sensitive that it should not be required.
- 22 A few preparers considered that even a qualitative statement about expected synergies would be commercially sensitive because of the information it provides an entity's employees.

*Forward-looking information*

- 23 Many preparers considered the information required in the proposed disclosures, or at least some aspects of that information to be forward-looking and that such information should be disclosed in management commentary rather than in financial statements.
- 24 In addition, a few regulators noted that some of the information required in the proposed disclosures could be 'forward-looking' as defined in some jurisdictional regulations and disclosing it could have regulatory implications.
- 25 The litigation concerns of disclosing forward-looking information (e.g. safe-harbour protection in US) were raised. However, some jurisdictions (e.g. Australia, Canada) have 'continuous disclosure requirements' related to forward-looking information and they do not see obstacles for disclosing it.
- 26 In other jurisdictions, particularly in Europe, preparers can include a disclaimer about forward-looking information in management commentary and other documents but not in financial statements. However, feedback from some European regulators suggested that such disclaimers generally do not protect entities from litigation that may arise from disclosing forward-looking information.

*Integration*

- 27 Many preparers noted that identifying whether, and to what extent, the performance of the acquired business met its objectives or contributed to the success of the combined business might be difficult.
- 28 A few users said the disclosures illustrated in the staff examples did not provide sufficient information about the incremental effect the business combination had on the entity.
- 29 In case if the acquired business is integrated at the operating segment level, some preparers questioned whether the proposed disclosures would be similar to that already disclosed applying IFRS 8 *Operating Segments*.
- 30 Different level of a management review of a business combination metrics and subsequent performance of the integrated business was noted by some preparers.

*Auditability*

- 31 Many preparers, some ASAF members and one auditor said some of the information that would be required applying the preliminary views could be difficult to audit because it would involve a significant judgment by using 'non-financial' or 'non-GAAP' metrics, due to subsequent integration of the acquired business and different

level of precision of management targets compared to the ones required in financial statements.

- 32 The auditors said it will not be impossible to audit such information but it will be time-consuming and more costly. It could potentially create a gap between the information audited and expectations of what has been audited.

*Respondents' suggestions*

- 33 Many respondents suggested ways to address preparers' concerns while providing users with better information about business combinations, including:
- (a) requiring information for only 'significant' business combinations;
  - (b) requiring disclosure of the information in management commentary;
  - (c) permitting disclosure of information about management's targets as a range;
  - (d) not requiring information about management's targets; and
  - (e) reintroducing amortisation of goodwill.

**Feedback from EFRAG users' outreach**

- 34 In March 2022 EFRAG conducted an additional outreach with 4 users to better understand what information was already provided by entities about business combinations and where, what information was needed by users and how spread the distribution of the information was.

- 35 The summarised feedback is provided below.

*What type of information is provided and where?*

- 36 The users get the information about a business acquisition from the deal prospectus, press-releases, presentations, conference calls, updates, which are voluntarily provided by the entities. However, the information there is not prescribed and can vary. Normally it is provided at a high level and if users need more details, they can ask direct questions during the meetings or calls.

- 37 There are also a number of investment bank sponsored events for investors to meet management teams - usually industry focused.

- 38 Not much information about the business combinations is currently included in the financial statements and although in many cases it will not be timely (as not provided at the time of acquisition but at the year-end) it will still be useful to have it there.

*What type of information is needed?*

- 39 The following information was considered useful:
- (a) Strategic considerations to make an acquisition.
  - (b) Acquisition strategy. Also, the information if a company has or does not have an acquisition strategy would be useful.
  - (c) Type of synergies expected and their realisation pattern. The breakdown by synergy type and amount and qualitative information about expected synergies would also be useful. However, one user expressed doubts that it would be possible to isolate the effects unrelated to a business acquisition that affect performance of a company such as a competitor entering the market (leaving the market) etc.
  - (d) Information on the segment to which goodwill is allocated and how the discount rate used in the NPV model to determine the consideration paid has been calculated and what elements are included in that discount rate.

- (e) Detailed purchase price allocation (PPA) for material business combinations, for example, its split by profit or loss and balance sheet line items.
  - (f) Profit or loss and cash flow statement pro-forma information at the acquisition date as if the two companies were already integrated.
  - (g) The information about how the acquisition is financed – sources and uses of funds. If acquisition is financed by a bonds issue, this information is generally available in prospectus (for the part financed by the bond issue). However, if it is financed by cash or treasury shares, no such information is available for investors. Preference for a tabular format was expressed.
  - (h) Capital structure during an acquisition and how it is affected by an acquisition.
  - (i) Integration (post-acquisition) strategy.
- 40 Users would like to have all this information at one place, preferably in the financial statements. It can be less detailed than in the prospectus, but preferably standardised.

*Are there variations between different industries?*

- 41 It was noted that every business combination is different as well as the reasons for it - for some it is synergies, for others - strategic considerations, etc.
- 42 For example, goodwill amounts in telecommunications industry tend to be very significant – up to 90% of the acquisition price. The reasons for business acquisition in a beer industry is often cost savings.

*How widespread the distribution is?*

- 43 It was agreed that information on business acquisitions is considered to be publicly available. Investors can ask for additional breakdowns of existing data for particular purposes, but not for a new information.
- 44 The information given on earnings releases or at capital market days is considered to be available to all - one just needs to dial in, meaning that dedicated analysts get the information and integrate it into their models.
- 45 On the subsequent performance it was noted by one user that generally management does not provide sufficient insight on how well or how bad the acquisition is performing. Investors often find that an acquisition is not doing well through other sources such as if the acquired group is listed and share price starts to drop.

**Question for EFRAG FR TEG**

- 46 Does EFRAG FR TEG has any comments on the feedback received on additional outreach performed by the IASB and EFRAG?