Outline of virtual research workshop on Goodwill 30 October 2020 12:00 – 14:00 (CEST)

40 min

- Brief introduction of participants
- Purpose of session – provide overview of proposals and related academic research, answer questions, obtain feedback on proposals and academic evidence
- Format – overview of proposals and academic research for each section followed by questions and feedback before moving on to next section.
- Sequence: not necessarily by "importance", but according to structure of discussion paper
- What research *can and cannot* do – overall caveat (https://arc.eaa-online.org/blog/evidence-informed-accounting-standard-setting-%E2%80%93-lessons-corona)

I Improving disclosures about acquisitions

We will introduce the project and the preliminary views and discuss proposed improvements in disclosures about acquisitions and objectives of proposals. We will present summary of the academic evidence.

- Proposed requirements:
    - Require companies to disclose:
        - in the year of the acquisition the strategic rationale for the acquisition and management's objectives for acquisitions; and
        - how acquisitions have performed against those objectives subsequently.
            - Pushback: We don't have that information, and we don't monitor M&A in this way
            - Comeback: Research shows examples of new accounting standards forcing firms to create new information that ends being useful for them internally
    - Some targeted improvements to existing disclosures, including proposed quantitative disclosures about expected synergies from acquisitions.

- Objectives of requirements:
    - Better information to help investors assess the performance of acquisitions that companies have made.
    - Better information to allow investors to hold management to account (stewardship).

- Summary of research:
    - M&A- and goodwill-related disclosures are of mixed quality, there is evidence of non-compliance with mandated disclosures, and disclosures that are presented are sometimes boilerplate, not informative.
    - The variation in the quality of M&A- and goodwill-related disclosures is not random but related to managers' reporting incentives.
    - M&A-related disclosures do matter to analysts and investors, higher quality is associated with reduced uncertainty and lower cost of capital.

Q&A - 20 min

- Q&A on the proposals and related research on disclosures about acquisitions.

50 min

II Improving the accounting for goodwill

We would now like to highlight some of the proposals for improving the accounting for goodwill, discuss the objectives of those proposals, and discuss the summary of the academic evidence.

- Key proposals cover three areas:
    - Can the impairment test be made more effective?
        - Not significantly, and not at a reasonable cost.
    - Should goodwill be amortised?
        - No, retain the impairment-only model.
    - Can the impairment test be simplified?
        - Yes, provide relief from the annual impairment test and simplify value in use.

- Objectives of key proposals:
    - Investigate whether the impairment test can be significantly improved to recognise impairment losses on goodwill on a more timely basis, and whether amortisation could and should resolve those concerns.
    - Information that best helps investors to hold companies' management accountable for acquisition decisions at a reasonable cost.
    - Reduce the cost and complexity of the impairment test in IAS 36, without reducing the robustness of the test.

Summary of research:

- It is very difficult, perhaps impossible, to directly compare the quality of financial reporting under the impairment-only approach and the amortization regime.
- Goodwill from acquisitions is related to stock prices (value relevant) as well as predictive of future cashflows, suggesting that goodwill book values embody future economic benefits; this holds before and after the introduction of the IOA.
- Recent studies seem to indicate that purchased intangibles, including goodwill, may make financial information less suitable for debt contracting.
- Managers use the discretion in purchase price allocations, by allocating smaller or larger portions of the purchase price to goodwill in response to incentives.
- The information content of goodwill impairments for investors depends on their "framing" by contemporaneous earnings information; the information content may differ across environments by their degree of investor protection; studies in the US indicate that information content has not changed as a result of IOA.
- There is mixed evidence on the predictive value of goodwill impairments.
- Goodwill impairment decisions are related to underlying economic fundamentals, but also to managerial incentives.
- Research on moderating factors suggests that goodwill impairment decisions (and disclosure quality) are related to intensity auditing, monitoring, oversight, enforcement; however, studies suggest that goodwill impairment decisions reflect management incentives even under strong enforcement, e.g., in US.

- Final Note - Caution: significant regression associations between reporting outcomes and fundamentals (incentives) do not imply that all accounting decisions are determined by fundamentals (incentives), only that statistical associations exist which are unlikely to be product of chance.

Q&A – 25 min

- Q&A on the proposals and related research on accounting for goodwill.

30 min

III Other topics

Last, we would like to discuss other topics in the DP. Again, we will discuss the proposed requirements, their objectives, and a summary of the academic evidence.

- Proposed requirements:
  - Present on the balance sheet the amount of total equity excluding goodwill.
  - Do not change recognition of intangible assets separately from goodwill.

- Objectives of key proposals:
  - Make total equity excluding goodwill more prominent.
  - Consider whether the separate recognition of intangible assets acquired in an acquisition, separate from goodwill, provides useful information to investors.

- Summary of research:
  - Recognised identifiable intangible assets in business combinations are value relevant and predictive of future firm performance.

Q&A – 20 min

- Q&A on the proposals and related research on other topics.