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Regulators to focus on goodwill impairment testing

Call for better quality disclosures

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IN THE HEADLINES

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> "Based on the content of ESMA's report, it makes sense to be proactive in addressing the issues before you receive questions."

– Egbert Eeftink
KPMG's global IFRS valuations and impairment leader

Regulators to focus on goodwill impairment testing

On 21 January 2013, the European Securities and Markets Authority (ESMA) issued a report European enforcers review of impairment of goodwill and other intangible assets in the IFRS financial statements. The report is based on ESMA's review of the accounting and disclosure practices of 235 European listed companies.

The review complements ESMA's November 2012 statement on common enforcement priorities for 2012 financial statements[1]. This earlier statement had already highlighted the impairment of non-financial assets and related disclosures as a priority area for enforcement.

The report raises questions as to whether the level of impairment in 2011 financial statements appropriately reflected the effects of the financial and economic crisis and the difficult economic operating environment. It also raises concerns about the robustness of impairment testing and the transparency of disclosures about the underlying assumptions used.

How do you rate?

ESMA expects European national regulators to use its review findings as areas on which to focus when reviewing 2012 IFRS financial statements, and other enforcers around the world are likely to take note of ESMA's concerns. On the basis of the report, here are some of the questions that you should be asking yourself.

ESMA found that the average equity/market capitalisation ratio was 145 percent	• If your ratio of equity to market capitalisation is greater than 100 percent, what work have you done to be comfortable with the difference? • In supporting such a difference, do you have external sources of evidence or have you relied only on internal sources?
ESMA found deficiencies in impairment disclosures	• If recoverable amount has been measured based on discounted cash flows, is it clear from your disclosures whether you are measuring fair value less costs to sell or value in use? • If recoverable amount is based on fair value less costs to sell, are your disclosures about assumptions consistent with that basis, or do they appear to be more consistent with value in use? • If you disclose a single average discount rate, does this provide users with sufficient relevant information? • In discounting cash flows, are your terminal growth rates realistic? • How clear and tailored to the company are your disclosures about key assumptions? • Do your disclosed assumptions cover more than just the discount rate and terminal growth rate?
ESMA found many sensitivity analysis disclosures to be vague	• Are your sensitivity analysis disclosures specific enough to provide users with relevant information? • Are you realistic in estimating possible changes in assumptions?

Time to think about your disclosures …

It's not too late to revisit your draft disclosures now, to make sure that your financial statements address the concerns highlighted. For more help with these disclosures, speak to your usual KPMG contact or go to our publications IFRS Disclosure checklist and Insights into IFRS.

1 See our publication In the Headlines: Focus areas for regulators – Issue 2012/16.

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