PRESS RELEASE

ESMA calls for improvements in disclosures related to goodwill impairment

The European Securities and Markets Authority (ESMA) has today published a review of 2011 IFRS financial statements related to impairment testing of goodwill - the value of intangible assets which has a quantifiable value - and other tangible assets. The review, which looked into the accounting practices of a sample of 235 European issuers from 23 countries, found €800bn (€790bn in 2010) worth of goodwill balances in the 2011 financial statements of issuers, with 5% (c. €40bn) of that amount recognised as impairment losses in 2011.

Steven Maijoor, ESMA CHAIR, said:

> "Good quality financial information is key for investors in understanding the financial health of an issuer in whom they hold assets or in who they may wish to invest.
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> "Goodwill, and its impairment, are key components in making a realistic evaluation of firms. In that respect ESMA's review will help in providing a more harmonised approach to the disclosure of goodwill impairment under IFRS throughout the European Union."

The report shows that significant impairment losses of goodwill were limited to a handful of issuers, mostly in the financial services (€19,2bn) and telecommunication industry (€9,7bn). This therefore raises the question as to whether the level of impairment disclosed in 2011 financial reports appropriately reflects the difficult economic operating environment for companies. Although the major disclosures related to goodwill impairment testing were generally provided, in many cases these were of the boilerplate variety and not entity-specific.

In order to improve the overall disclosure provided by issuers, ESMA recommends that issuers:

- Better specify the key assumptions used in the impairment test;
- Include sensitivity analyses with sufficient detail and transparency, especially in situations when indicators are present that impairment might have occurred;
- Determine the growth rates used to extrapolate cash flows projections based on budgets and forecasts; and

- Disclose specific discount rates for each material cash-generating unit rather than average discount rates.

In addition, ESMA and national competent authorities responsible for IFRS enforcement will use the review's findings as areas to focus their assessments on when reviewing 2012 IFRS financial statements. These reviews will aim at:

- improving the rigour applied by issuers in the impairment test of goodwill;
- monitoring the application and compliance with IAS 36 requirements on goodwill impairment, in particular with regard to:
    - the reasonableness of cash flows forecasts;
    - key assumptions used in the impairment test;
    - sensitivity analyses provided; and
- assess whether issuers have provided sufficient relevant disclosures in these areas.

Firms and auditors sought to improve disclosure

ESMA expects issuers and their auditors to consider the findings of this review when preparing and auditing their IFRS financial statements. In addition, national competent authorities will take, or have already, taken appropriate enforcement action whenever material misstatements are identified.

ESMA will collect data on how European listed entities have applied IFRS requirements in this area in 2012 and will report its findings to the market.

Notes for editors

1. 2013/02 *European enforcers review of impairment of goodwill and other intangible assets in the IFRS financial statements.*

2. ESMA is an independent EU Authority that was established on 1 January 2011 and works closely with the other European Supervisory Authorities responsible for banking (EBA), and insurance and occupational pensions (EIOPA), and the European Systemic Risk Board (ESRB).

3. ESMA's mission is to enhance the protection of investors and promote stable and well-functioning financial markets in the European Union (EU). As an independent institution, ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

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