European Securities and Markets Authority

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PRESS RELEASE

ESMA calls for improvements in disclosures related to business combinations

The European Securities and Markets Authority (ESMA) has published a report on the application of accounting requirements for business combinations in IFRS financial statements. The report, based on a review of the annual IFRS financial statements of 56 issuers in the European Union (EU), examines the consistency of how key requirements of *IFRS 3 – Business Combinations* are applied and provides recommendations to issuers, and suggestions to the IASB, on areas where the usefulness and quality of the financial information could be improved.

Steven Maijoor, ESMA Chair, said:

> "Transparency of financial information is of paramount importance for investment decisions. Therefore, given the impact of business combinations on financial statements, ESMA believes that enhanced information by issuers would contribute to investor protection and increase market confidence.
>
> "Today's report will also assist the IASB in identifying those areas where the IFRS requirements lead to divergence in practice and where clarification or additional guidance is necessary to increase consistency in application by issuers".

Findings

Although the results of the review show that some good business combination disclosures were provided, ESMA identified certain areas where improvements are warranted in order to enhance the usefulness of the information. Despite the fact that issuers included in the sample recognised goodwill in most of the business combinations analysed, descriptions of the factors making up goodwill were often 'boiler plate' or insubstantial.

Generally, issuers presented a summary of the fair values of major assets and liabilities acquired, however, the high level of aggregation of certain assets and liabilities limited the understandability of the information provided and some were aggregated despite having a different nature. When measuring those assets and liabilities at fair value, ESMA noted that some issuers referred to external valuations only and very few issuers disclosed information on how fair values were determined.

Almost a quarter of the business combinations reviewed did not recognise any intangibles separately from goodwill and bargain purchases appear to happen more frequently than generally expected.

ESMA recommendations

ESMA urges issuers to provide disclosures tailored to the specific circumstances of transactions. In particular, ESMA believes issuers should further improve the quality of the information by:

- Providing relevant information about the factors determining the amount of goodwill or reasons for bargain purchases;
- Providing more granular disclosures on the assets and liabilities recognised, where relevant;
- Applying consistent assumptions at the initial recognition and subsequent measurement of assets and liabilities; and
- Improving the information provided on the valuation techniques and assumptions used when measuring assets and liabilities at fair-value.

Next Steps

ESMA expects that national competent authorities will take appropriate enforcement actions where material breaches of the IFRS requirements have been identified as part of the review and will monitor their progress.

Notes for editors

1. 2014/643 ESMA Report – Review on the application of accounting requirements for business combinations in 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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