More IFRS Disclosures to Evaluate M&A Performance – the Right Way Forward?

Abstract

This paper explores how analysts perceive the usefulness of M&A information provided under IFRS Accounting Standards. Based on semi-structured interviews with 19 Swedish sell-side analysts and ten complementary interviews, we first study analysts' perceived usefulness of IAS 36 and IFRS 3; next we use this as an anchor to observe the incremental effects of recent amendments regarding business combinations, goodwill and impairment proposed by the IASB. We find that the analysts question the discretion allowed by the current standards, contending that it limits comparability and reliability. Second, as regards the proposed amendments, we find that specific amendments, particularly disclosing the key metrics utilized by a company's management to evaluate the success of an acquisition, along with follow-ups on those metrics in subsequent periods, could considerably improve analysts' perceived understanding of M&A performance. Contrarily, analysts perceive the proposal to amend the methodology for calculating value in use as less valuable. Third, our paper addresses the IASB's choice to solve a recognition/measurement problem (the flawed goodwill impairment test) by providing additional disclosures about an entity (the acquiree) that is not subject to goodwill impairment testing during the post-acquisition period. Our most important empirical finding is that financial analysts do not make this disconnection between the CGU and the acquiree – they focus on how the new IFRS 3 disclosures will help them to better forecast accounting numbers, including effects related to the goodwill impairment tests according to IAS 36.

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1. Introduction

Mergers and acquisitions (M&A) constitute an important part of the growth strategy of many firms. Correspondingly, financial analysts form expectations concerning future acquisitions and monitor the outcome of previously made acquisitions (Andersson, Graaf, & Hellman, 2020; Andersson & Hellman, 2020). Prior research suggests that acquisitions have, on average, either no significant effects or negative effects on subsequent performance (King, Dalton, Daily, & Covin, 2004) and these results appear to persist over time (King, Bauer, & Schriber, 2019). Given the poor outcomes, why do capital providers and analysts accept that firms continue to grow by acquisitions? One part of the answer concerns the quality of the information they receive about the outcome of acquisitions.

IFRS and US GAAP accounting for M&As changed significantly in the early 2000s, prohibiting the pooling method, lowering the recognition criteria for identifiable intangibles in the purchase price allocation, and replacing the dual model (goodwill amortization plus additional impairment if required) with an impairment-only approach. As regards IFRS, a post-implementation review (PIR) was completed in 2015 (IFRS Foundation, 2015) and, in response to criticism, a follow-on project relating to goodwill and impairment was decided on. The outcome of this project was reported in a Discussion Paper (DP) (IASB, 2020).

The DP reports on major deficiencies with the impairment-only approach and the design of the test. Impairment tests are generally not effective and therefore failed acquisitions will not necessarily result in the goodwill being impaired. However, the IASB majority view in the DP is that there is "no compelling evidence" that returning to the dual model would significantly improve the information provided to investors (DP 3.88). Instead, the DP suggests that the user needs for better information about the subsequent outcome of acquisitions can be addressed through new disclosure requirements. As regards the design of the goodwill impairment test, the DP responds favorably to preparers' requests for reduced costs and complexity by suggesting simplifications to the impairment test. The DP proposals have subsequently turned into proposed amendments of the relevant standards in an Exposure Draft (ED) (IASB, 2024).

The objective of the current study is to evaluate financial analysts' views on the usefulness of the proposed new M&A disclosures. Based on 19 semi-structured interviews with sell-side analysts, we first establish the interviewees' perceived usefulness of current IFRS reporting; next, we use these interviewee positions as benchmarks for the interviewees' evaluations of the proposed amendments in the ED. Arguably, this is a research design that makes it possible to study the expected impact of new disclosures before they are in force. To provide further context, ten additional interviewees from listed companies and audit firms were included in the study (four CFOs, one Financial Reporting Vice-President, three auditors, and two audit-firm IFRS experts).

2. IFRS for Business Combinations – Standards, Proposed Amendments and Prior Research

2.1 IFRS Accounting Standards Currently in Force

IFRS 3 (*Business Combinations*) is applied at the initial consolidation of an acquired entity. At the acquisition date, an acquisition analysis of the acquired entity is prepared where identifiable assets and liabilities are generally recorded at fair value. A positive residual between the consideration transferred and the net identifiable assets of the target is recorded as goodwill. During the post-acquisition period, IAS 36 (*Impairment of Assets*) is applied to evaluate the need for recognizing goodwill impairment losses. The goodwill recognized at the acquisition date (according to IFRS 3) pertains to the acquired entity, which is consistent with applying the dual model during the subsequent period where the acquired entity's goodwill is amortized over useful life (e.g., Hellman & Hjelström, 2023). However, under the impairment-only approach the goodwill is often tested for a different entity than the one originally acquired. This is the driver behind the need for complementary disclosures about performance outcomes at the acquired-entity level.

The following real-world example serves to further illustrate some of the challenges posed by the impairment-only approach.[1] In mid-2022, the Swedish listed company Ericsson acquired the US company Vonage for SEK 53 billion. The goodwill amounted to SEK 42 billion. Vonage constitutes a separate cash-generating unit (CGU) within one of Ericsson's operating segments. Ericsson provides detailed disclosures about the assumptions made for calculating the value in use (VIU) in the annual report for 2022: above 20% growth during the first five years; thereafter gradually declining growth until steady state is entered after ten years; 3.5% growth in steady state; post-tax discount rate of 9.5%. Ericsson further indicates the headroom for impairment by stating that the VIU (same as the recoverable amount) would equal the carrying amount of the CGU *if* the sales growth before steady state decreased by circa 3%, *or if* there was a long-term decrease in the EBIT margin by 4%, *or if* the applied WACC would increase by 1.5%.

In the third quarter report 2023, Ericsson recognized a goodwill impairment loss of SEK 32 billion related to the Vonage acquisition as interest rates had increased and growth had been slower than expected. Arguably, in this case, the impairment test has provided capital providers and analysts with relevant information about the outcome of the acquisition so far. One important reason for this is that Vonage is a separate CGU, i.e. its operating cash flows are largely independent of cash flows related to other Ericsson CGUs. If Vonage had been integrated to a CGU with pre-acquisition headroom (a pre-existing business with internally generated goodwill), the Vonage goodwill would have been shielded from impairment to a certain extent (Hellman & Hjelström, 2023; Linsmeier & Wheeler, 2021).

Further, Ericsson states in the annual report for 2023 that some headroom was gained in the fourth quarter "[…] mainly from the amortization of intangible assets since the write-down."[2] This illustrates an inconsistency in the impairment test in that the acquired entity's identifiable assets

[1] We present this example as it was used in the interviews to make interviewees express more specific views on the current IFRS reporting of acquisitions.
[2] Source: Ericsson's annual report 2023.

and liabilities are only valued at fair value at the acquisition date, not during the post-acquisition period. Using a fair-value-based impairment model, with updated fair values of assets and liabilities at each test point in time, would improve the test's effectiveness (Hellman & Hjelström, 2023).

Finally, another reason why the test works well in the Ericsson-Vonage case is that the accompanying disclosures are sufficiently specific to allow for quantified expectations of future impairments. Arguably, capital market participants knew already before the third quarter report that the impairment headroom had been consumed (the Ericsson share price increased slightly in response to the impairment announcement). Prior research suggests that judgment and estimates in connection with impairment recognition are subject to management opportunism (d'Arcy & Tarca, 2018), however, the ED does not address this matter but suggest that they are better dealt with by enforcers and auditors.

2.2 What Are the Amendments?

2.2.1 Amendments Related to the Impairment Test.

The ED (IASB, 2024) proposes targeted amendments to the requirements in IAS 36 concerning the calculation of VIU and clarifications to how goodwill is allocated to CGUs. First, as regards the VIU calculation, the ED (p. 26, emphasis added) proposes to remove the current restriction in IAS 36.33b to "[…] exclude any estimated future cash inflows or outflows expected to arise from *future restructurings or from improving or enhancing the asset's performance*." Instead, a current potential for future cash flows related to restructuring or asset-performance improvements/enhancements would be considered in the value-in-use calculations. Compared to the current version of IAS 36, this amendment would seem to enable preparers to increase the VIU of a CGU. In turn, this would make the likelihood of impairment lower.

As noted in a staff paper (IASB, 2023c), the amendment has caused confusion among respondents, as removing the capping of cash flows from restructurings and asset improvements/enhancements seems conceptually misaligned with IASB's definition of "current condition" in IAS 36 (IASB, 2023c). Nonetheless, the IASB contended that if an asset possesses the "current" capacity to generate those cash flows, then conceptually, it can be factored into estimating the VIU, representing cash flows attributable to the asset in its current condition.

The IASB's main arguments for suggesting these changes are that capping cash flow projections can cause cost and complexity because excluding such cash flows requires management to adjust its financial budgets or forecasts (IASB, 2023c). Put differently, the IASB argues that such projections tend to be included in entities' regular budgeting, where the current standard thereby requires them to craft a separate budget just for the sake of following the standard.

Second, the ED removes the preference for making value-in-use calculations on a pre-tax basis.

Third, there are amendments related to how goodwill is allocated to CGUs that addresses the pre-acquisition-headroom problem referred to in Section 2.1. Specifically, the ED clarifies that the CGU (or group of CGUs) subject to an impairment test shall represent the lowest level within the entity at which *the business associated with the* goodwill is *monitored for internal management purposes*. This involves identifying the CGUs (or group of CGUs) expected to *benefit from the* *synergies* of the business combination. The maximum CGU size is still an operating segment as defined in IFRS 8 (*Operating Segments*). It is an empirical question whether the increased emphasis on where the synergies appear and are managed will reduce the pre-acquisition headroom.

2.2.2 Amendments Related to Business Combination Disclosures.

As described in Section 2.1, the entity tested for impairment (the CGU) is typically not the same as the acquired entity (the pre-acquisition-headroom problem), and the principles for measuring net assets differ between the acquisition date (fair value) and the subsequent period (historical cost). Accordingly, the IAS 36 impairment test is not designed to assess the success of a business combination. As improvements in the design of the impairment test have proved difficult, the main suggested solution in the exposure draft is to *improve the disclosures relating to the acquired entity* during the post-acquisition period.

More specifically, the ED states that the acquirer shall disclose information that *enables users of its financial statements to evaluate the benefits an entity expects from a business combination* when agreeing on the price to acquire a business; and *follow up on the extent to which these benefits are being obtained*. The follow-up applies only to strategic business combinations. The subsections below outline the application guidance related to the new disclosure requirements.

2.2.2.1 Strategic Rationale and Synergies

According to the ED, the acquirer shall, for each business combination during the reporting period, present *the strategic rationale for the business combination* and a description of *expected synergies* in categories, for example, revenue synergies and cost synergies.

For each category, the acquirer shall disclose the estimated amounts or range of amounts of expected synergies; the estimated costs or range of costs to achieve these synergies; the time from which the benefits from the synergies are expected to start and for how long they are expected to last (including specification of whether they are expected to be finite or indefinite).

In addition, the acquirer shall disclose the *amounts of revenue and operating profit or loss of the acquired entity* since the acquisition date.

Finally, the amounts of revenue and operating profit or loss of the *combined entity* shall be disclosed for the current period *as though* the acquisition date for all business combinations that occurred during the year *had been as of the beginning of the annual reporting period*.

2.2.2.2 Strategic Business Combinations – Key Objectives, Targets and Key Management Personnel

A business combination is *strategic* if either one of the specified size criteria[3] is met or the business combination resulted in the acquirer entering a new major line of business or geographical area of operation.

[3] In the most recent annual reporting period before the acquisition date, the acquired entity's revenue is 10 per cent or more of the acquirer's consolidated revenue; or the absolute amount of the acquired entity's operating profit/loss is 10 per cent or more of the absolute amount of the acquirer's consolidated profit/loss; or the acquired assets at the

For each strategic business combination, the acquirer shall disclose the information reviewed by its *key management personnel*.[4] In the year of acquisition, this comprises the acquisition-date *key objectives* and related *targets*. A key objective refers to a specific aim that is critical to the success of the business combination. The related target (measured as a metric) shall describe the level of performance that will demonstrate whether the key objective has been met.

In the year of acquisition and in subsequent periods, the entity shall report on the extent to which the acquisition-date key objectives and related targets are being met. Such disclosures are required to be quite specific, i.e. what information about actual performance has been reviewed and a clear statement on whether the actual performance has met key objectives and targets. There are also some disclosure requirements to provide reasons in case the key management personnel stop early (or never start) reviewing the business combination.

2.2.2.3 Exemption from Disclosing Information

It is important to note that the requirement for entities to disclose information about the performance of business combinations applies only to a subset of business combinations – strategic business combinations. In addition, the ED proposes that entities can be exempt from disclosing some of the information in Sections 2.2.2.1 and 2.2.2.2 in specific circumstances.

The main reason for exemption refers to the case where the disclosed information can be expected to prejudice seriously the achievement of any of the acquirer's acquisition-date key objectives. The entity must be able to describe a specific reason for not disclosing an item of information that identifies the seriously prejudicial effect. The exemption shall not be used to avoid disclosing an item of information only because that item might be considered unfavorably by the capital market.

2.3 Suggested Amendments from the Perspective of the Research Literature

The ED argues that the suggested disclosures are motivated states as users confirmed the need for them in their feedback on the DP. Some additional comments can be made in relation to the research literature.

2.3.1 More Disclosures or Valid Recognition and Measurement?

When developing accounting standards aiming to provide users with high-quality information, there is a trade-off between, on the one hand, recognizing and measuring the relevant assets and liabilities, and, on the other hand, off-balance treatment with supplementary disclosures (e.g., contingent liabilities). As regards the suitability of disclosures as a tool for conveying financial information, academia maintains a degree of skepticism. Studying the pricing impact on real estate companies, Müller et al. (2015) find that firms who disclose information on investment property fair values exhibit a weaker correlation with market capitalization relative to firms recognizing these fair values on the balance sheet – suggesting a price discount for the firms applying

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acquisition date (including goodwill) is 10 per cent or more of the carrying amount of the total assets recognized in the acquirer's consolidated statement of financial position at the most recent reporting date before the acquisition date.

[4] Defined in IAS 24 ((Related Party Disclosures) as those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

disclosures over recognition. This theme of the stock market preferring recognition in the financial statements over disclosures is further demonstrated by Michels (2017), who finds evidence that firms utilizing recognition achieve stronger initial market reactions following subsequent events compared to firms who instead disclose this information.

In the case at hand, an emphasis on "recognition/measurement" instead of just more disclosures would imply a return to the dual model or to improve the effectiveness of the goodwill impairment test (Hellman & Hjelström, 2023; Linsmeier & Wheeler, 2021). There is a risk that just adding disclosures on what happens to the acquired entity during the post-acquisition period will not be possible to disconnect from the outcome of the goodwill impairment test. Disclosures at the acquired entity level, suggesting an acquisition has failed, are likely to put pressure on recognizing goodwill impairment losses even though the goodwill may be technically shielded by performing the impairment test at a high organizational level.

2.3.3 Disclosures and Impairment – What Do We Know?

Reviewing previous goodwill literature, d'Arcy and Tarca (2018) conclude that firms' disclosures fall short compared to what is prescribed under IFRS. The articles reviewed by d'Arcy and Tarca (2018) point towards a gap between the prescribed and actual practices in goodwill disclosure, influenced by a combination of internal firm dynamics and external regulatory frameworks. Moreover, Glaum et al. (2013) and Hartwig (2015) uncover a widespread pattern of non-compliance among European companies, suggesting that firm-specific factors like the type of auditor, the corporate governance structure, and the strength of country-level enforcement mechanisms critically influence firms' disclosure practices. Hartwig (2015) find indications of improvement over time, suggesting the presence of a learning curve – a notion that aligns with the findings of Mazzi, André, P., Dionysiou, D., & Tsalavoutas (2017), signifying increased compliance as time progresses.

Focusing specifically on the application of IAS 36 by Danish firms, Petersen and Plenborg (2010) find that the number of CGUs varies considerably among firms and that approximately a quarter of the sample defines its CGUs as operating segments – the highest level allowed. Moreover, five of the 58 companies studied had fewer CGUs than operating segments. The number of CGUs per firm also varies from one to around 200, consequently impacting the need to recognize impairments while introducing comparability issues. Petersen and Plenborg also find indications of non-compliance regarding how firms determine the recoverable amount, for example regarding the determination of the discount rate, the incorporation of systematic risk into their cash flow projections and terminal value calculation errors.

A general challenge with using more disclosures instead of more comprehensive principles for recognition and measurement is that the standard setter must generally assume that preparers will act in good faith (Wüstemann & Wüstemann, 2010). In turn, discretionary materiality thresholds for disclosures, and auditors and accounting enforcement bodies possibly being softer on disclosure requirements compared to financial statement numbers, will leave room for poor disclosers (Hellman, Carenys, & Moya, 2018).

2.3.4 A Management Approach

The suggested solution in the ED as regards the disconnection between the acquired entity and entity tested for impairment is to ask management to disclose information about business combinations at the acquiree level rather than at the CGU level (i.e. maintaining the link to the goodwill recognized for the acquired entity at the acquisition date). At the acquisition date, disclosures shall pertain to the strategic rationale and expected synergies for material business combinations and key objectives and targets for strategic business combinations. During the post-acquisition period, management shall report on performance (statement and actuals).

The ED proposal aligns with IFRS 8, where a management approach is applied – the definition of what is an operating segment, what measures to report, and accounting measurement principles to apply should be viewed in the eyes of management. André, Filip & Moldovan (2016) examined the application of IFRS 8 among 270 European multi-segment firms and their results suggest that when management is given much flexibility in relation to disclosure in combination with low enforceability, there will be high variation in disclosure quantity and quality in practice.

Adopting the management approach according to IFRS 8 made many users concerned about the objectivity and reliability of the reported information (Aboud, 2023; Aboud & Roberts, 2018; Berger & Hann, 2003; Crawford, Extance, Helliar, & Power, 2012). Additionally, several issues in IFRS 8 were considered blurry, such as aggregation guidelines, reconciliation, the Chief Operating Decision Maker (CODM) identification, and the use of non-IFRS measures.

The major observed changes in segmental reporting practices following IFRS 8 are the increase in the disaggregation of geographical information and the reduction in the number of items disclosed (André et al., 2016; Crawford et al., 2012; Leung & Verriest, 2015; Nichols, Street, & Tarca, 2013). Results reported by Aboud and Roberts (2018) indicate that firms with greater proprietary costs provide lower-quality segment disclosure under IFRS 8.

In relation to financial analysts, prior studies suggest that segment-based forecasts outperform consolidated forecasts and that the average forecast error decreased after analysts began using segment information (Cereola, Nichols, & Street, 2018; Roberts, 1989). Furthermore, segment information is likely to be more beneficial to analysts when business segments are comparable with the industry sectors and are more disaggregated (Berger & Hann, 2003; Heo & Doo, 2018; Hussain, 1997; Kou & Hussain, 2007). However, using a sample from Australia, He, Evans, & He (2016) documented that analysts' earnings forecasts did not improve significantly after the adoption of the Australian Accounting Standards Board's AASB 8, suggesting that the benefits associated with the management approach did not materialize when Australia moved to the management approach.

A controversial aspect of IFRS 8 is to allow firms to define their segment profit (or loss) on a different basis than IFRS measurement and recognition principles. Using hand-collected segment data on a sample of European multi-segment firms, Göttsche, Küster, & Steindl (2021) find that non-IFRS segment data lead to less accurate analyst forecasts. Additionally, they find that non-IFRS segment data are associated with higher forecast dispersion, higher uncertainty in analysts' forecasts, and a lower precision of analysts' public information set. Collectively, the findings indicate that non-IFRS segment data impair analysts' information environment. These results are relevant to the ED-proposal of new acquiree-centred disclosures as it would seem that whatever measures reported (and measurement/recognition principles applied) to key management personnel (KMP) is what the firm shall disclose during the post-acquisition period.

Finally, there is lack of clarity concerning who is considered "management" under the management approach.

Insert Figure 1

As illustrated in Figure 1, IAS 36 refers to "management" as responsible for applying the goodwill impairment test, however, the highest level of a CGU (or group of CGUs) is an operating segment under IFRS 8, which is defined based on what entity the CODM considers an operating segment. The introduces the management category KMP, used already in IAS 24 (*Related Party Disclosures*). How will users be able to tell the difference between these categories of management? Will it matter for the disclosures provided?

Based on an empirical study of the CODM identity and segment reporting quality in UK FTSE 100 firms 2013-2017, Ammar and Mardini (2021) report that the identity of the CODM varies considerably. Furthermore, using an IFRS 8 disclosure index with 23 items to measure the level of segmental disclosures, they find that the identity of the CODM significantly affects the level of segmental disclosures and that the 32 observations where firms do not disclose the identity of the CODM has the lowest level of segment reporting.

2.3.5 Disclosures About a Unit of Account Not Recognized

It is a paradox that the new disclosures in the ED pertain to a unit of account that is typically not considered by the goodwill impairment test but corresponds fully with the goodwill amortization model. It is emphasized in the ED that the new disclosure requirements regarding business combinations should be separate from the subsequent treatment of goodwill (impairment vs. amortization). It is an empirical question whether users of financial reports will view the disclosures at the acquired-entity level as separate from the reported accounting numbers.

3. Methodology

3.1 Research Design

The empirical work conducted is exploratory and focuses on analysts' evaluations of firms' M&A activities based on IFRS under two different reporting/disclosure regimes: (1) the prevailing IFRS 3 and IAS 36 standards in 2024; (2) the amended standards as presented in the ED (IASB, 2024).

We rely on interview data, where we first establish the interviewees' perceived usefulness of IFRS information produced under the prevailing reporting/disclosure regime. In the next step, we use the interviewees' perceptions of the current information setting as an anchor for evaluating the suggested amendments in the ED. Using this design, we are able to collect data on the expected impact of new standards on users. A requirement for this design to work is to first establish the interviewees' perception of the prevailing regime both in more general and specific terms. We therefore use both general questions and real-life examples during the interviews. The first of the two real-life examples is the Ericsson-Vonage example, described in section 2. It is a straightforward case where the goodwill impairment test has a high degree of effectiveness and where disclosures are quantitative and informative. It appears that the acquirer follows the standard setter's intentions and acts in good faith. The Ericsson-Vonage is contrasted with a case with different features, SSAB-IPSCO case.[5]

Appendix 1 shows an overview of the interview guide structure that was used. In the first step, general questions about the current situation were asked, followed by specific questions related to the two cases (Ericsson-Vonage and SSAB-IPSCO). In the final step, questions about the ED amendments were asked. We aim to maintain an open-minded approach towards the data and observations we collect, employing an iterative abductive process (Timmermans & Tavory, 2012) throughout our research.

When the interviews started in February 2023, the ED had not yet been published, but the contents were known via IASB (2023a, 2023b, 2023c, 2023d, 2023e, 2023f, 2023g).

3.2 Data Collection

In total, 29 semi-structured interviews were conducted for this study between February and March 2024. The interviews were made with three groups: (1) financial analysts (sell-side equity research analysts), (2) audit firm professionals (auditors and IFRS experts), and (3) company representatives (CFOs and accounting professionals).

Financial analysts act as advisors to primary users of IFRS information and therefore their ability to use complex IFRS information, like M&A related information, is of key importance. Adding preparers of financial statements, and audit firm professionals, allow us to expand the analysis. We believe that incorporating these groups will contrast the analyst perspective and add a deeper understanding of the context where the analysts operate.

Insert Table 1

Table 1 shows an overview of the interviews made. The financial analysts interviewed were all employed by investment banks based in Stockholm. To get as broad of a perspective as possible, the financial analysts interviewed covered different sectors and had different lengths of professional experience. The different sectors limited the risk of getting an industry-specific view on the questions, as some industries might be more goodwill- and acquisition-intense than others. The differences in experience allowed us to capture a wide array of views. We argue that analysts

[5] The second case (SSAB-IPSCO) refers to the case where the Swedish firm SSAB acquired the American firm IPSCO in 2007 at a high price level with a large goodwill item. One part of IPSCO was divested in 2008, but a substantial part of the IPSCO business and goodwill amount remained. SSAB had no American operations before the IPSCO acquisition and the American operations became a separate CGU. During the years following the acquisition, the EBITDA margin in the American CGU gradually decreased and there were strong indications that the goodwill impaired. For example, SSAB's valuation dropped to a market-to-book ratio much below 100% and the Big Four audit firm indicated in the Key Audit Matters that there was no impairment headroom for the American CGU. However, the goodwill was not written down until 2022 when suddenly the long-term growth assumption in the impairment test was lowered from 2% per year in 2021 to -30% per year in 2022, while the discount rate assumption increased from 11.6% in 2021 to 17.8% in 2022. These changes in the assumptions for VIU calculation led possible to a write-off of all the old IPSCO goodwill. It should also be noted that the year 2022 was an exceptionally good year for SSAB in general and in particular for its American CGU. In 2020, the American CGU only had about 13 bn SEK in sales and an EBITDA margin of 3.7% – in 2022, the American CGU were 32 bn SEK with an EBITDA margin of 38.8%.

with fewer years of experience have the IFRS framework fresher in mind from school but that senior analysts have a broader overall understanding from having practically dealt with more acquisitions and impairments. In selecting company representatives and accounting professionals, we focused on companies with material goodwill amounts on their balance sheets. We chose to interview large-cap companies (market cap > SEK 10bn) on the Stockholm stock exchange to add credibility. Finally, interviews with audit firm professionals were all performed with individuals at Big Four firms.

Our data collection process relies on grounded theory (Glaser & Strauss, 1967) to explore the current rules of IFRS 3 and IAS 36 from primarily an analyst perspective, and to evaluate whether proposed amendments will enhance their perceived understanding of M&A performance. Building on the basic ideas of grounded theory, the number of interviews with analysts was determined by the theoretical saturation principle. Data collection ceased once additional interviews no longer contributed new insights or themes relevant to the emerging thesis. We deemed this vital for the study of financial analysts, as they constitute the focus of our study. Executing 19 interviews before reaching theoretical saturation allowed for a deep understanding of the subject matter. As for the other groups, auditing professionals and company representatives, we deemed it satisfactory to interview 5 respondents from each of these groups to provide a complementary overview. We believe this approach ensures a comprehensive exploration of the relevant themes while adhering to the methodological rigor required for grounded theory research.

Based on the work by Rowley (2012), we choose to conduct semi-structured interviews to allow for structure when deploying a set of broader questions. While the questions were designed to cover our selected topic, this approach allowed for further analysis of specific topics that arose, adding additional insight through ad-hoc follow-up questions (Fontana & Frey, 2005).

The interviews started with a presentation of the authors and a brief description of the study. However, the research question was not presented to avoid influencing the interviewee in any direction, and we avoided presenting much about the setup beforehand to prevent the interviewee from being prepared. We opted against preparing interviewees beforehand to ensure their responses authentically reflected their genuine and unfiltered views on the current subject. As such, the interview guide was not distributed before the interviews. All the interviews were then constructed and conducted in four primary parts.

The 29 interviews lasted between 38 and 91 minutes, with an average of 52 minutes. When arranging interviews, participants were given the option to either conduct face-to-face interviews at their offices or opt for online interviews via Microsoft Teams. This flexibility was provided to ensure the comfort of the interviewees and accommodate their preferences to the fullest extent possible. Eleven of the interviews were conducted face-to-face and eighteen on Microsoft Teams. Upon receiving verbal consent from the interviewees, all interviews were recorded and subsequently transcribed using either the built-in AI transcriber in Microsoft Teams or the transcription tool available in Microsoft Word. The recordings, along with the transcripts, allowed for further analysis of the empiric material.

Two of the authors were present during all interviews and were responsible for certain parts, ensuring reliable and nuanced interpretations (Bryman & Bell, 2015). One author took the more general questions and discussed the company cases, while the other asked questions about the proposed amendments. This setup enabled one of the authors to primarily focus on asking questions and follow-up inquiries, while the other author was able to take detailed notes and make additional observations. Following the work of (Eisenhardt, 1989; Eisenhardt & Bourgeois, 1988), this dual approach allowed the authors to generate complementary insights, increasing the likelihood of obtaining interesting findings.

All interviews were conducted in English, considering the high level of professional proficiency among all participants, for whom English serves as the working language in many contexts. Although conducting interviews in English might have slightly restricted the interviewees' ability to express themselves freely, we judged that this approach minimized the risk of translation errors and misinterpretations. Moreover, it enhanced the overall comparability of the data and we concluded that the benefits of using English outweighed the potential drawbacks.

3.3 Data Analysis

Following each interview, based on the interview notes, the empirical data was manually coded by themes and related literature into a Microsoft Excel spreadsheet. The spreadsheet was later complemented by insights obtained from the recordings and transcripts. This open-coding approach, in-line with the work by Glaser and Strauss (1967), allowed for a transparent overview of the empirics, facilitating comparisons and in-depth analysis. From thereon, we applied different theoretical lenses such as the goodwill-components theory (Hellman & Hjelström, 2023; Johnson & Petrone, 1998) along with prior empirical research. We view this as a transition to an interpretive grounded theory (Sebastian, 2019).

Deploying an iterative abductive research process in our data analysis, some of the collection and analysis work were done in parallel. This approach facilitates ongoing assessment of the literature's relevance in light of empirical findings (Timmermans & Tavory, 2012).

3.4 Data Quality

To add to the authenticity and reliability of the study, we have focused on linking and presenting empirical findings using quotes. Moreover, to convince the reader that we have presented a comprehensive view of the data rather than selectively highlighting aspects that fit a particular narrative, we have included concrete examples that shed light on the research subject from various perspectives. Furthermore, we have made an effort to present contrasting viewpoints simultaneously, thus ensuring a balanced and nuanced portrayal of the subject matter. This is argued by (Lukka & Modell, 2010) to be an essential step to achieving credibility. Also, the authors argue that plausibility is achieved if arguments are presented in a way that makes sense.

4. Findings

The findings are comprehensive and order to create structure we use a table format, beginning with interviewees' perceptions of the currently prevailing IFRS information regarding M&As, followed by findings related to the ED amendments.

4.1 Interviewees' Perceptions of IFRS-based M&A Information – General Views

4.1.1 Current Situation

Analysts	Auditors and audit-firm IFRS experts	Company representatives
Analysts typically begin by examining the general attributes of acquisitions. Smaller, bolt-on acquisitions usually receive less attention, while major acquisitions that introduce new business segments or expand into new geographical areas are more thoroughly scrutinized. This often depends on the nature of the acquiring company. Generally, analysts argue that evaluating an acquisition's performance to some degree is a black box due to the overall low transparency. However, the quality and quantity of information can vary greatly, necessitating a case-by-case approach to each acquisition. Moreover, many of the 19 analysts interviewed witnessed that clients expected swift reactions to acquisition announcements, which put pressure on analysts to provide qualitative feedback, even with limited information. Several analysts argued that his sense of urgency often compromised the quality of the response. I would say that when a company announces an acquisition, we get quite little information. It is hard to know what goodwill consists of. We just have to take it at face value. (Analyst 9) Analysts typically start by examining the purchase price when assessing an acquisition's potential success. The amount paid by the	Some audit firm professionals argued that the existing framework is quite straightforward from the preparer's standpoint, facilitating effective communication about the acquisitions as they occur and their subsequent performance. Others were more critical. The current practice places significant emphasis on the purchase price allocation (PPA), which, while potentially being costly for firms, is seen as a crucial component for more accurate reporting. Moreover, some audit firm professionals notice a trend towards more thorough PPAs, with a broader range of intangible assets being recognized alongside goodwill. However, there is a consensus among audit firm professionals that the PPA process is inherently subjective, with considerable room for judgment in determining the values of acquired assets and liabilities. There has been a change in the way we do PPAs. When I started at *BIG FOUR FIRM*, most of the time, the overvalue, so to say, in acquisitions, was allocated to goodwill. Nowadays, we allocate more to other intangibles. (Auditor 3) In contrast, other audit firm professionals argue that acquisitions are not always reported in a manner that is fair and accurate. One audit firm professional highlights mismatch between the initial outlook provided by management at the acquisition announcement and the subsequent outcome. Furthermore, one audit firm professional points out frequent discrepancies between the initial internal forecasts and the later evaluations performed in	Companies tend to provide more detailed reporting for larger acquisitions, while smaller bolt-on acquisitions tend to receive less attention. For major acquisitions, it is common for companies to issue press releases detailing the rationale behind the acquisition and to organize press conferences or conference calls with analysts to lay out the details. However, some company representatives identified issues with the current practices, particularly relating to the fact that goodwill often remains perpetually on the balance sheet. Due to the low occurrence of impairments, return metrics may be skewed by inflated balance sheets. I find having a perpetual value [of goodwill] on the balance sheet a bit challenging, especially since we are looking at "economic value-added" as a parameter for the value creation that we achieve. But with the capitalisation of goodwill that never goes away, even acquisitions that you made 20 years ago still count equally from a capital cost point of view. And that, of course, has an impact

company is fundamental both for evaluating the acquisition's potential and for calculating the goodwill value. Consequently, details regarding the price paid or the multiple at which the acquisition is made become crucial, as this gives some indication of whether the acquisition was made at a fair price level. In the best of cases they give you some historical information in terms of revenue and profitability metrics, and very rarely do we get some balance sheet information. From there, I work with what I have and try to talk to the company about future growth, future profitability and where it is trending. In the cases where you don't get anything, it gets really tricky. If so, I either try to find outstanding financial information about that company, or I just assume a worst-case scenario with below-group profitability. (Analyst 10)	connection with the impairment test. Given the inherent uncertainty of future outcomes and the various changes a company might undergo, follow-up assessments prove challenging. Additionally, as acquisitions become more integrated into the company's operations over time, it becomes increasingly difficult for external users to track their specific contributions to the overall performance of the group. Changes in management may also shift the focus, potentially affecting how earlier acquisitions are reported. This situation complicates the ability of outside users to accurately understand the underlying performance of acquisitions. If you have a change in management, the new management has no 'stake' in the previous acquisitions. That creates an incentive for what you call big bath accounting. It is simple to shoot down previous stuff and/or make impairments. (Auditor 2)	on the economic value added targets for the group. (CFO 4) Another perspective offered by company representatives concerns the PPA disclosures, noting that while a PPA may be presented, the information often lacks transparency regarding synergies, expected growth, and other key factors. Furthermore, some company representatives point out that most acquisitions are integrated into the existing business and CGUs, which significantly limits the ability of external users to monitor the performance of each acquisition individually. So the accounting doesn't actually help the investors much, and most acquisitions are included into cash-generating units that are much larger than the acquisition, which makes them hard to track. (CFO 2)

4.1.2 Current Levels of Goodwill in the Balance Sheets

Analysts	Auditors and audit-firm IFRS experts	Company representatives
Overall, analysts show little concern about high goodwill amounts in firms' balance sheets. There is, however, some variation across analysts, where some are slightly more concerned. A common view among analysts is that the market tends to respond to goodwill impairments before they are recognized in the books; thus, the impairment risks are typically priced into the current stock price. This is more evident in instances where the market value of equity falls below book value of equity, some analysts argue. Consequently, stock prices usually show minimal or no reaction to impairment charges and, in some cases, even respond positively. Given this view among analysts, they perceive that the risk of impairment does not serve as a primary indicator of an acquisition's performance. I'm sure it's a bit of a worry that it [goodwill impairment] might happen, but in terms of stock price movement, I'm not too worried. There are cases, like [company example from the analyst], where I would say that it's almost expected at this point. (Analyst 10) Another dimension that analysts emphasize is a company's maturity. In cases where a company is mature and maintains a balance between old and new acquisitions, the absolute levels of goodwill are not seen as a significant concern. This perspective is particularly applicable to companies that have demonstrated both organic and acquired growth over the years. Conversely, for younger, rapidly growing companies, aggressively increasing goodwill, the market tends to exercise more caution. I would say that goodwill levels are something that we keep more track of in newer companies, both recently founded but also recently listed ones. (Analyst 7)	From the perspective of the audit firm professionals we interviewed, there was limited concern for the goodwill levels on company balance sheets. Nevertheless, several audit firm professionals noted instances in which firms face an impending risk of impairments, often attributed to aggressive expansion through acquisitions in recent years. Additionally, some audit firm professionals speculated that inflated goodwill values could be a consequence of the strong economy in recent times, leading to higher acquisition multiples and, thus, increased goodwill values. We have had a really good economy in the world, especially here in Sweden, with a big appetite for acquisitions. This has led to companies paying more for firms than they might otherwise have done. (Auditor 3)	

4.1.3 Views on the Impairment-only Approach

Analysts	Auditors and audit-firm IFRS experts	Company representatives
In reviewing the attitudes to towards the impairment-only approach, we discover that most of our 19 analysts view it favorably compared to a model of annual amortization coupled with impairment testing. They highlight advantages, such as not needing to assign a useful life to goodwill as an asset, and practical benefits, including the avoidance of adjustments for goodwill amortization. Even if the IASB at some point were to revert to an amortization model, our findings indicate that while some analysts may focus on amortization for specific companies, a more likely outcome would be an increased emphasis on EBITA over EBIT. Therefore, the consensus view among our interviewed analysts is that the impairment only model is preferred. If you amortize goodwill and there's nothing wrong with the underlying business, technically, the book values become a little bit deflated. In that sense, I would say that while the current IFRS approach is conservative to some extent, it is not as conservative as an annual amortization approach. In some sense, IFRS is conservative enough. (Analyst 2) Nonetheless, despite no desire to revert to an amortization approach, analysts highlight several limitations with the current impairment-only approach. These include: (1) subjectivity and the degree of freedom allowed, and (2) the potential for inflated balance sheets. Firstly, the process of deciding on impairment seems, from the analysts' perspective, to allow for a significant amount of flexibility and relies heavily on management's judgment. Our empirical findings reveal a general skepticism towards the impairment-only approach's capability to accurately reflect the true economic state of goodwill. Analysts argue that impairments tend to be delayed and depend significantly on timing, which,	One perspective presented by the audit firm professionals in our interviews is that, from a theoretical standpoint, the impairment-only approach is preferable. Nevertheless, they acknowledge that, in practice, impairments are often recognized too late. They further note that for companies expanding through numerous acquisitions, the impairment-only approach is favorable as annual amortization would lead to depressed earnings. However, while highlighting the merits of the impairment-only approach, the interviewees also point out its deficiencies. For instance, they criticize the PPA process for being inherently flawed, arguing that it allows for management biases to influence the allocation, often resulting in an excessive amount of goodwill. The audit firm professionals also note that the impairment testing process involves a high degree of subjectivity and theoretical complexity. A significant part of their role, they mention, is to challenge management teams on their assumptions, which are inherently subjective. Furthermore, they find the existing disclosure requirements inadequate, limiting users' ability to fully grasp the implications and risks of impairments. They suggest that more comprehensive disclosures might be beneficial to users, as the market's reaction tends to be more pronounced to changes in assumptions rather than to the impairment charges themselves.	Some of the company representatives we interviewed believed the impairment-only approach is effective and reverting to an amortization model would not bring positive changes. One company representative argued that amortization results in artificially low balance sheets, emphasizing that while accounting may not perfectly mirror reality, it should strive to accurately reflect it. Additionally, one company representative contended that the impairment test is beneficial for reporting quality in the sense that it forces companies to regularly review their goodwill levels. This process ensures that the recorded values do not deviate significantly from the original assumptions. The current approach [annual impairment test] keeps the machine going and I wouldn't say it's that cumbersome or costly right now. Testing it once a year makes sure that we keep track of everything. It will probably be more of a hassle to design something which

to some extent, circles back to the intangible nature of goodwill. The discretion to impair or not largely lies with management. While disclosures are mandated, they do not provide enough detail to fully reconstruct the impairment test, thus permitting a degree of inherent discretion, as viewed by analysts.

> It's very subjective. Management can seemingly assign pretty much any discount rate. Despite auditors checking the reports, it seems like there is quite a wide range of different discount rates methodologies applied. Also, going back to the point that goodwill in some way is an asset we can't really put a finger on, adds subjectivity, and it is hard to put a finite life to it. (Analyst 9)

Secondly, several analysts point out that the presence of an asset that may never be impaired and remains on the balance sheet can be problematic. Furthermore, when goodwill constitutes a substantial portion of a company's assets, it can adversely affect metrics like Return on Invested Capital (ROIC) and Return on Capital Employed (ROCE). This is because goodwill inflates the asset base without necessarily enhancing operational earnings, potentially resulting in a diminished return on a larger asset base. Some argue that annual amortization could offer a more accurate representation of the actual return on capital. However, if goodwill is amortized over five years, but the acquired company continues to perform well for ten years, this could lead to artificially high return figures after the amortization period. Contrary, if acquisitions underperform early, several analysts suggest that earlier impairments would be preferable. The market generally anticipates the risk of impairment for acquisitions that do not meet expectations, often pricing this in, as evidenced by the neutral or even positive market reactions to most impairment

> I think that if everything is done properly by the clients and auditors, the impairment-only approach works well. Unfortunately, many times it does not. But if everything is well-documented, regarding the PPA and all the assumptions, it is actually quite a good way to follow the business case of an acquisition. (Auditor 1)

Conversely, some audit firm professionals express a preference for an amortization model, arguing for its simplicity and that it, to some extent, is more "fair". Given the inherently subjective nature of goodwill and the assumptions it entails, amortizing it annually could streamline the balance sheet, making it more reflective of the company's current state. One audit firm professional suggests that amortization could enhance comparability across companies. Since the impairment test is highly specific to each firm, involving varied assumptions, different management teams, and different auditors – achieving comparability between companies poses a challenge. However, as one audit firm professional contends – what ultimately matters to users is understanding a company's performance. Users may not be particularly concerned with whether goodwill is impaired or amortized, focusing instead on the underlying operational results.

> On the amortisation model, I think it's simple and understandable, and it also you, for example, only use every three years. (VP of Accounting Standards)

Conversely, some company representatives expressed a preference for returning to an amortization model, citing its practical advantages. One company representative argued that companies face scrutiny regardless of their approach to impairments: if they report many impairments, their skill in conducting acquisitions is questioned; if they report none, their impairment tests are doubted. The goal, as the company representative put it, is to strike a balance – achieving some sort of optimal number of impairments, although noting that a more practical alternative would be linear amortization. Another company representative added that amortization would not only ensure a more consistent approach across companies but also ensure a more conservative practice as it is more prudent.

> Call it a more prudent way, but I would prefer a principle where we depreciate or amortize goodwill. (CFO 3)

announcements. Therefore, taking an impairment earlier could be in a company's interest, signaling responsible management and preventing inflated asset bases. If you depreciate goodwill every year you might get a better sense of the underlying return on capital. (Analyst 7)	takes away a lot of pain related to goodwill. […] From time to time, the impairment test is very burdensome and an expensive exercise for the companies, including a large degree of judgment and assumptions. Avoiding it by amortising regularly could be a good thing. (IFRS Expert 1)	

4.1.4 Usefulness of the Information Provided by the Impairment Test

Analysts	Auditors and audit-firm IFRS experts	Company representatives
To further the analysis, we examined the specific information disclosed regarding impairment tests. Our findings indicate that analysts observe variation in the levels of disclosure among companies, affecting the usability of the information provided. It appears that larger firms and those within certain industries tend to offer more detailed disclosures. Nonetheless, analysts commonly point out that there always seems to be some critical piece of information missing, allowing companies considerable discretion in adjusting their assumptions to align with their desired outcomes. This discretion prevails without auditors or the market effectively questioning and scrutinizing these adjustments. Some companies give us some information, but in general I would say that most of the information is missing. Normally, you just get some cost of capital rates. I might look at them and cross-reference to some extent, but they don't say much. (Analyst 5) Most of our 19 analysts discuss discount rates in the impairment test, noting that their values heavily depend on the context provided by other information. As previously mentioned, analysts find it impossible to replicate the impairment tests, whereby the disclosure of a discount rate, in isolation, is not particularly useful. Analysts suggest that more informative disclosures would include the companies' medium- and long-term expectations for the cash flows of each CGU. Detailed information on the headroom within each CGU could also prove beneficial, helping analysts determine the likelihood of an impairment. In most cases, I think the data is lacking. Often, we only get the long-term growth assumption and the internal cost of capital used. I think this is too little information. It would be insightful to get an understanding of both a short-, medium- and long-term growth forecast and what kind of profitability the company assumes. That would give us an understanding of what the aim was with the acquisition. (Analyst 7) In firms giving more granular information, analysts use this data to cross-check their own assumptions regarding growth rates and cash flows. In such contexts, the	Audit firm professionals note that there is variation in the level of detail companies provide in their impairment tests, although most follow a similar approach. However, some audit firm professionals believe that the information offered is often too generic, offering little insight for external users. This lack of granularity limits the value of such disclosures, as there is no opportunity for users to validate the assumptions or to independently reconstruct an impairment test. Opinions diverge on what type of information would be most valuable for external users, with some arguing that disclosing the WACC can be useful as it is relatively straightforward and helps investors understand the risk levels management assigns to different CGUs. Conversely, others question its utility, advocating instead more detailed disclosures on cash flow projections and long-term growth rates, believing such information would enhance the granularity available to users and	Our empirical findings suggest that from a company perspective, the information given in the impairment test serves to justify the values recorded on a company's books, rather than enabling users to independently replicate the test. Furthermore, some company representatives argue that for the information disclosed in the impairment test to be useful, it would need to be more comprehensive. Accordingly, these company representatives speculate that the current level of disclosures likely offers limited value to investors due to its lack of depth. These respondents further contemplate that including historical forecasts and

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<td>historical track record and the level of trust in management become crucial factors. When a firm has consistently met its own forecasts and objectives, analysts naturally place greater weight on the company’s estimates in their own analysis. Nonetheless, despite the potential reliability of these estimates, analysts remain generally cautious about placing too much confidence in forecasts. They recognize the inherent difficulties in making accurate estimates, acknowledging that both companies and analysts can misjudge future potential.

I use it [information in the impairment test] to cross-check my assumptions if I make a DCF. I do this by looking at what risks they assign to their business and, if possible, what cash flows they expect. […]. I think if you have a company that consistently underperforms on its forecasts and projections, then there is good reason not to rely too much on it. (Analsyt 2)

Other analysts adopt a more skeptical view of the provided information, choosing to disregard the absolute figures. Instead, they find value in observing changes in assumptions. If a company adjusts its assumed discount rate or terminal growth rate, it indicates a fundamental shift in the company's outlook for its future. Moreover, if such changes occur too frequently or if there is a consistent trend of adjusting the discount rate downward without a clear rationale, it is a warning signal to analysts. This pattern could suggest that the underlying operations may not be performing as expected, and adjustments of the assumptions could be an attempt to avoid an impairment. This critical view underscores the importance of not just the numbers themselves, but the narrative they imply about the company’s health and expectations.

I look at the fundamental changes. So, let’s say they have upgraded or downgraded the growth outlook for the cash-generating unit. If that is different from my view or my, let’s say, estimates, I would need to consider if my assumptions and estimates are correct. The most relevant thing for me to figure out is if there are any discrepancies between my reality and the company’s new reality. (Analyst 4)</td>
<td>improve their ability to make forecasts.
Yet, another viewpoint suggests that providing more detailed forecasts could be counterproductive, given their inherently subjective nature. This perspective points out that increased disclosure of cash flow projections and growth rates may not be useful, as there is a risk that the market would not trust it anyway, as forecasting is difficult and the figures are prone to bias and subjectivity.

The forecasting is so uncertain in nature that I am not sure it gives much value to investors. Or rather, I am not sure they trust it. The WACC is more straightforward. It is more interesting to know how the impairment test would react to changes in it. (Auditor 2)</td>
<td>comparing those with actual outcomes could prove valuable. According to these respondents, this type of information has the potential to significantly improve the ability of users to track and follow up on the company's performance.

To understand the risk of impairment better, it would be useful to give the headroom per CGU. It would allow analysts to figure out how close a CGU is to an impairment. (VP Accounting Standards)</td>
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4.1.5 The Number and Definition of CGUs

Analysts	Auditors and audit-firm IFRS experts	Company representatives
Regarding the number of CGUs, the predominant view among the analysts was that having many CGUs is preferable, as this tends to result in more detailed information, facilitating better analysis. Analysts generally preferred the possibility to examine the smallest components feasible, although recognizing that this should be balanced with practicality. As such, many highlight that the current practice of often having CGUs aligned with the segments matches their own approach, as segments are typically the focus of their tracking and forecasting. A more detailed breakdown could introduce unnecessary complexity without materially improving analysts' understanding of the underlying assumptions. Therefore, our empirics show that while many CGUs are fancied, what is more important is rather to obtain more information about each CGU. I mean, from the perspective of being able to track it, of course you would want to have more CGUs. The more standalone basis, the easier it is to track and evaluate the promise. (Analyst 9) I think segment level is usually the most straightforward way to do it. That's usually what we follow on the analyst side as well. Everything relates to if you provide consistency in what you report. If it is not consistent and detailed in other aspects, more CGUs are just	The audit firm professionals noted the common practice among companies to define their CGUs on the operating segment level. Some were skeptical towards this practice, but pointing at the difficulty of challenging management's view on this matter. It was hard to collect sufficient evidence despite seeing indications that management might monitor the business at more granular levels. The issue of defining CGUs is a common point of discussion with management during the audit process, but the absence of concrete evidence makes it difficult for auditors to drive any material change. My view is that most companies define their CGUs on a segment level. It is the practice now. […] I think sometimes they may track it on a lower level, but it is hard for me to question it without proof. It also falls back on, will it have a big impact? In many cases, no, not really. (Auditor 3) Moreover, one audit firm professional highlights the significant variation in the number of CGUs across different companies. While such discrepancies	The interviewed company representatives generally considered having one CGU per segment to be sufficient. Several company representatives mentioned that determining the number of CGUs involved balancing the usefulness of the information provided to the market against the costs associated with conducting impairment tests. For companies who engage in numerous smaller bolt-on acquisitions, it is common practice to integrate these new businesses into existing CGUs. This approach typically aligns with operational logic, as bolt-on acquisitions are often directly related to one or a few existing CGUs. I think it's sufficient to do it [define CGU] on a segment-level because if we would have to establish each acquisition as its own CGU, it would require much work. […] So it is always a balance, and that's why I think segment is sufficient because, in reality, it's also the segments that we need to be able to defend. (CFO 1) Furthermore, a company representative notes that creating separate CGUs for smaller acquisitions might not be practical, as synergies often occur across different levels and areas and should be accounted for accordingly. Another company representative highlights the importance of considering and evaluating a

going to be a random data point, I would say. (Analyst 15) In discussing how companies define CGUs following new acquisitions, most analysts expressed a preference for companies to place newly acquired entities into new and separate CGUs, although contending that it should make sense operationally. Nonetheless, since most major acquisitions typically represent some form of expansion, analysts appreciate the ability to monitor these acquisitions independently. In cases where a significant acquisition could be integrated into an existing CGU, some analysts suggest initially keeping it separate, allowing for the evaluation of its performance separately before potentially merging it with the pre-existing CGU(s) after a few years. Conversely, for companies engaged in numerous smaller bolt-on acquisitions, analysts see no benefit in splitting them into separate CGUs, acknowledging that such granularity would not provide additional value to their analysis. I would prefer if firms put major larger acquisitions into separate CGUs of course, but I guess that is not always possible or wanted by the company. (Analyst 10)	could be attributed to differences in operational structures, the reasons are not always transparent to auditors. An audit firm professional criticized the current standards for defining CGUs as one of the areas fraught with difficulties. The combination of broad principles, unspecific rules, and complex wording complicates the implementation of these standards, frequently leading to errors in financial reporting. I think generally that it is one of the areas [definition of CGUs] where I think the standard isn't working as intended. The rules are a bit ambiguous, which allows for interpretations by the preparers. I believe that there are a lot of companies not identifying cash-generating units appropriately, but I think it is well known that the standard is old and also difficult to apply. (IFRS Expert 1)	group of assets rather than individual assets, reinforcing the rationale for incorporating smaller acquisitions into existing CGUs. Underlying this rationale is the respondents' view that the market does not necessarily care about each acquisition, but the aggregate. Additionally, there's concern that separating all acquisitions into separate CGUs could lead to an overly conservative balance sheet since well-performing acquisitions are not revised upwards. Thus, achieving a net effect through the aggregation of acquisitions might provide a more balanced view to the market. Then what happens is that you write down parts of your balance sheet, but you don't adjust the surplus value you have in other parts, so you will have an overly conservative balance sheet, and therefore, we typically want to lump them together when we buy a company. For bigger acquisitions, we tend to keep them as separate CGUs for a while to make sure that we don't have any systematic errors in our valuation or anything, but after some time, we tend to integrate them as we run it as an integrated company. (CFO 2)

4.2 Interviewees' Perceptions of IFRS-based M&A Information – Specific Examples

4.2.1 What Interviewees Find Useful in Company Examples 1 and 2

Analysts	Auditors and audit-firm IFRS experts, and Company representatives
Looking at the two examples, the analysts tended to consider cash flow projections, growth, WACC and allocation of goodwill as important information. Generally, Ericsson's granularity of disclosures was considered superior to SSAB. Underlying this preference, three factors were highlighted that analysts argued were highly uncommon to obtain in annual reports: (1) description of the most crucial financial parameters in the acquiree, in this case, the revenue growth and the operating margin, and illustrating how much lower they can become before the book value would exceed the carrying amount; (2) near-term cash flow projections; and (3) justification of such projections by disclosing data on market outlook, growth drivers and the total addressable market where the CGU operates. At the same time, analysts noted that none of these disclosures were presented by SSAB, highlighting that disclosure practices differ significantly across firms. I appreciate how Ericsson discusses the underlying financial parameters and the methodology behind their numbers. Also, the fact that they provide both a verbal and quantitative market assessment, combined with CGU-specific growth forecasts for the next five years, is, in my opinion, valuable and not something you tend to see among listed entities. (Analyst 7) Furthermore, most analysts favored Ericsson's choice to put the acquired entity into a separate CGU, arguing that this enables them to track the performance of this individual acquisition more easily. Given the size and importance of this particular acquisition, analysts considered it appropriate for management to place the acquiree in a separate CGU, fearing that the impairment would have been considerably smaller if it had been included in CGUs containing headroom. Moreover, analysts also emphasized that SSAB consolidates a number of acquisitions under a single CGU, suggesting that this partly explains how they have managed to avoid impairment for several years. What I find valuable in Ericsson, especially since this acquisition was very sizable, is that it is being created as a separate CGU, which means that we can actually try	Our empirics show similar insights from audit firm professionals and company representatives, highlighting that Ericsson provides more granular information than the average listed firm. In particular, the disclosure of the performance-related assumptions that are most crucial to avoid impairment in a specific CGU, along with providing a sensitivity analysis of these assumptions, is rarely included in annual reports. Audit firm professionals and company representatives also acknowledge Ericsson's short-term cash flow projections, arguing that management teams seldom provide this information given the fear of not meeting expectations. By including such projections, the management team come across as confident in the acquisition, as failure becomes more apparent to the market. Hence, audit firm professionals and company representatives consider this information valuable for financial statement users as it increases transparency and enables them to hold management teams accountable for subsequent performance. Conversely, audit firm professionals and company representatives note the absence of such projections in SSAB, which they perceive as less transparent but not unexpected given common practices. I rarely see market growth, size and drivers in annual reports, so I must say that this is quite granular. The forecasting period is not so common either. All this is helpful information for users in my opinion. Observably it is not included in SSAB,

to track the performance. SSAB has not applied this approach, and that obviously contributed to why it took way too long to make the impairment. (Analyst 14)	which I would say represents more standard-level of disclosures. (CFO 1)

4.2.2 What Interviewees Lack and Find Inconsistent in Company Examples 1 and 2

Analysts	Auditors and audit-firm IFRS experts, and Company representatives
While analysts find the disclosures of near-term forecasts and market growth interesting, we observe criticism towards the assumptions made by Ericsson. According to most analysts, growing cash flows by 20% per annum seems aggressive, especially considering the company's low-growth profile in its other divisions. Hence, although the disclosure of market growth, drivers, and size provides some credibility, analysts express concerns about the plausibility of the numbers, questioning how an auditor could approve such optimistic projections. Furthermore, we find indications that these estimates are only valuable for a limited time as they quickly become outdated. Hence, although most analysts appreciate these disclosures, the true value lies in management providing updated information as circumstances change. While I like that they [Ericsson] disclose projections on its cash flows and market growth, they must be consistently updated to provide any value. I know in my own job how often I have to revise my estimates as things change and new information emerges. My estimates from a year ago are probably completely useless today. (Analyst 10)	Regarding SSAB, audit firm professionals and company representatives criticize the timing and rationale behind the impairment. While acknowledging that comparing a firm's market capitalization with its book value is a valid method to identify the need for impairment, they find it concerning that management only refers to this after many years. Some auditing professionals and company representatives argue that this reflects an instance of 'big bath accounting', where management deliberately manipulates assumptions to maximize the impairment and cleanse the books in a single stroke. These respondents further claim that SSAB Example illustrates some of the clear disadvantages of the impairment-only method, arguing that an amortization model largely mitigates such issues. We do this [comparing market value to book value] all the time. It is a good way to distinguish the need for an impairment test. However, it makes no sense if this has already been the case for 8 years [in SSAB]. (Auditor 2)

4.3 Interviewees' Views on Suggested Amendments to IFRS-based M&A Information

4.3.1 Potential Effects of Amendments – General

Analysts	Auditors and audit-firm IFRS experts	Company representatives
Most of the 19 analysts view the suggested amendments as enhancements, advocating that more information is generally beneficial, especially considering companies' varying levels of disclosure today. Consequently, many welcome these changes, asserting they will enhance firm comparability. However, a recurring theme in our interviews highlights that these improvements depend on communication by a management team trusted by the analyst. Thus, if management has a reputation and track record of providing realistic statements and estimates, these amendments will be valuable. On the contrary, if a company communicates through untrustworthy management, the information will not be helpful to analysts. One large company I cover, which has been doing a lot of acquisitions historically, provides very limited details about its acquisitions. So, I think a standardised framework with regard to what they must disclose would be quite useful. Although I know that some companies probably already qualify for this, I think this sounds like a good initiative overall. (Analyst 15) It is all about management credibility. Has current management provided estimates in the past with good accuracy? Then, this could add value. If not, then it probably won't move the needle. (Analyst 4) Our findings broadly indicate that these changes will pressure management to deliver satisfactory results in its M&A activities, as they are under greater surveillance than previously. Hence, by this logic, these amendments could	The audit firm professionals do not agree on what the effects of the amendments will be. On the one hand, we observe a willingness to adopt these amendments, specifically those that include more quantitative aspects. By this logic, increasing quantitative disclosure requirements will lead to investors being in a better position to evaluate the performance of acquisitions. Requesting more qualitative information, however, would not be helpful for financial statement users but would more likely result in increased complexity and confusion. However, there are also interviewees suggesting that this will be costly and time-consuming for companies to follow effectively, questioning whether the benefits truly outweigh the burden. I think many of the quantitative parts here are interesting. If it's too much qualitative stuff, it just gives companies the opportunity to be vague. In practice, they [companies] would probably just copy-and-paste a similar qualitative statement for every	The company representatives indicate general skepticism towards these amendments, highlighting concerns about cost and complexity. In particular, company representatives show concern regarding the length of the disclosures, particularly for companies executing many acquisitions, questioning whether this will provide any value for the user or just add more complexity. So, if you do one or two acquisitions per year, then maybe it's OK. But if making acquisitions is your core business, then it [the amendments proposed] would be an administrative nightmare to work with, and you could also question the value of it since many acquisitions are small and insignificant in relation to the size of the group. So, it would expand the annual report without adding any value. (CFO 3) Moreover, our observations indicate that disclosing specific components of these amendments may present challenges from a competitive standpoint. During our interviews, company representatives

proactively lead to management teams becoming more careful in undertaking acquisitions, as failure in delivering on promises will become increasingly apparent. I think they [management teams] would be a bit more careful about what they pay for acquisitions. Especially after having to explain the rationale, the synergies, and which metrics they set. I mean, with this [the amendments proposed], they will have less to hide behind; it becomes more black and white. So yeah, I think it could change their way of acting. (Analyst 1) Moreover, some analysts suggest that having these reporting requirements could help analysts identify poor performance in an acquisition earlier on, addressing the perceived issue of disclosing relevant M&A information and impairments too late. Hence, some analysts consider these amendments to better communicate the information they have previously been required to search for in the impairment test, namely how good a company is at making acquisitions. However, we also observe an alternative view, contending that, in practice, this does not lead to valuable estimates. This perspective asserts that management deliberately sets low targets for the metrics they are monitored against, ensuring they consistently exceed them rather than providing projections that accurately reflect reality. Well, my first thought when reading this [the amendments proposed] is that management will lowball all objectives in order to always beat expectations and make sure they never lose face. (Analyst 6)	acquisition, which wouldn't add much value. (Auditor 1)	voiced concerns that competitors, suppliers, or customers could exploit this information for their individual gain, potentially leading to adverse financial consequences for the firm. Suppose we buy a privately held company with an extraordinarily high profit margin, and the current customer base has no idea how high the margin is. If we were to disclose this fact, customers could potentially pressure us on prices or switch supplier, harming our business prospects. (CFO 2) However, interviewees also indicate that companies with a history of successful acquisitions are adept at disclosing many of these metrics already. Conversely, unsuccessful acquirers often lack such disclosures, highlighting inconsistencies in firms' disclosure practices. So, generally, companies that are quite good at disclosing the outcome of their acquisitions are typically the ones being quite successful, and those that are less transparent are often so for a reason. (CFO 2)

4.3.2 Potential Effects of Amendments – Strategic Rationale, Objectives, Metrics and Follow-ups

Analysts	Auditors and audit-firm IFRS experts	Company representatives
As for the strategic rationale, the interviewees argued that the impact of this amendment would be non-material for analysts, as most companies already are good at disclosing this information. Among all amendments presented in the interviews, this was considered the least significant change compared to current standards. We observe similar findings for objectives, where our empirics suggest that objectives are already commonly disclosed following an acquisition. In contrast, the interviewed analysts perceived the implementation of metrics and follow-ups would significantly enhance prevailing standards. Despite variations in disclosure granularity and consistency among companies, with some already partially reporting on these matters, the analysts clearly supported these amendments. The interviews further reveal a deficiency in companies' disclosure of information that can hold management accountable for poor performance. Consequently, management favors discussions on strategy and objectives rather than quantitative metrics and their outcomes. Thus, our research demonstrates that disclosing metrics and providing follow-ups on them is perceived to offer more valuable information for analysts compared to qualitative disclosures on strategic rationale and objectives when it comes to evaluating M&A performance.	There was general support among audit firm professionals for implementing the proposals regarding strategic rationale, objectives, metrics and follow-ups. While the audit firm professionals noted that some companies are already good at reporting on strategic rationale and objectives, the standardization was considered beneficial for comparability purposes. Considering metrics and follow-ups, the audit firm professionals viewed the proposed approach to be advantageous, as it forces company management to disclose information for which they will be held accountable. This indicates that the current framework is malfunctioning in providing information that helps investors evaluate management teams' ability to undertake acquisitions and that these amendments will partly solve this problem. Moreover, providing this information exposes management's ability to make forecasts, giving financial statement users a chance to evaluate management's skill and trustworthiness in making such projections.	The company representatives argued that many companies, particularly larger ones, already disclose strategic rationale and objectives. Consequently, these interviewees did not expect implementing these disclosures to result in significant changes compared to current standards. Instead, the interviewees thought it was more likely to introduce additional complexity without enhancing usefulness. I cannot talk for other firms, but we always do this for all our acquisitions [provide strategic rationale and objectives]. My gut feeling is that most companies on our scale already do this. (CFO 1) As regards the metric and follow-up part of the amendments, there were different views. On the one hand, company representatives considered these amendments more valuable than objectives and the strategic rationale, as many companies are weaker at disclosing quantitative performance metrics following acquisitions. On the other hand, the company representatives perceived that tracking these metrics could pose challenges, particularly several years after the acquisition. Initially, companies often distinctly track the performance of a newly acquired entity separately within the group. However, as integration with other parts of the business occurs, distinguishing between the performance attributable to the acquiree and that of the pre-existing entity becomes increasingly challenging. This ambiguity introduces a significant degree of subjectivity, diminishing the disclosure quality and usefulness. Nevertheless, in the short term, we find evidence that company representatives consider these amendments

I think these [metrics and follow-ups] would be clear improvements. All kinds of statements that you can track and make management teams and boards accountable for promising something is good. Additionally, this would give us better transparency in how an acquisition is progressing. (Analyst 14)	Without such disclosures [metrics and follow-ups], it's quite tough for the market to assess the performance of individual acquisitions and hold management accountable for them. (Auditor 2)	manageable and should not result in high costs and complexity to disclose. Take margins as an example. That sometimes gets blurred in subsequent periods because you integrate it [the acquired entity] with other parts of the business. The longer you wait, the harder it will be to know what cost items belong to a specific acquisition. (CFO 2) No, I don't see a problem in actually doing it [disclosing metrics and follow-ups]. We will track that data anyway, so it would be an overstatement to say that this would dramatically increase our workload. (CFO 1)

4.3.3 Potential Effects of Amendments – Synergies

Analysts	Auditors and audit-firm IFRS experts	Company representatives
Noting that synergies are often a significant aspect in undertaking a larger acquisition, we observe general support for these amendments among the interviewed analysts. The theme of inconsistencies between firms is further evident here, where some analysts say that certain firms already provide this information consistently while other firms rarely give any information. Such firm differences are also present as regards the timing of when synergies will occur. Such information is often vaguely formulated by companies, if formulated at all. Hence, the interviews suggest that that analysts consider standardization in the reporting of synergies to be positive, increasing the overall comparability across firms.	There was some variation in audit firm professionals' views on the proposed amendments regarding synergy disclosures. On one end, audit firm professionals suggested that disclosing this information is beneficial, as it can provide valuable insights without imposing significant additional costs or complexity on firms. Since synergies are vital when assessing a potential acquisition target, this stance outlines that such information is well-documented among firms.	As for company representatives, we detect a general skepticism toward implementing these requirements. Firstly, several company representatives highlight difficulties in providing certain synergies, as estimating them involves much subjectivity. Specifically, revenue synergies can be troublesome to predict, as these often lie beyond management's control. However, we observe that company representatives have better visibility in projecting cost synergies and have structures and templates in place for subsequent evaluation. Hence, we find

> Yeah, I think everything there [amendments proposed on synergies] would be useful because I typically don't get anything on synergies from my companies. However, when I covered a different sector a few years back, I could sometimes get some of this info, so I guess it can vary between companies and sectors. (Analyst 11)

As highlighted above, the importance of management trust and previous track record of delivering on its promises will be essential if these amendments are to be valuable for analysts. This is particularly true when considering quantitative synergies, where the trust in management's capability to make such predictions will determine its usefulness. Nonetheless, our empirics showcase that quantitative synergy estimates are more valuable than qualitative ones, where qualitative disclosures in isolation tend to have low value for analysts. However, we also find some evidence suggesting limitations with only providing quantitative metrics, indicating that the combination of the two is crucial to getting a good understanding. If analysts obtain numbers with no descriptive rationale, they will have difficulties in assessing the reliability of the numbers, consequently assigning low value to them.

> I do favor quantitative synergies. However, I guess what is important from my perspective is to also understand where those synergies would come from and why it makes sense. Just getting a number stating, you know, 500 million or 600 million, says little to me. (Analyst 10)

Regarding assigning value to different types of synergies, we find strong support among analysts favoring cost synergies over revenue synergies, derived from a general mistrust among analysts in management teams' ability to predict revenue synergies.

Hence, while observing signs that this includes the risk of estimation error, the cost commitment seems manageable.

> But I mean, when you're making an acquisition, any serious company would have modelled this [estimated synergies], right? Either themselves or together with its M&A advisors. So, I mean, management should have a view on this. (Auditor 2)

On the other end, we observe signs that these amendments will impose substantial costs and complexity for many firms. In particular, there were indications that smaller firms, on average, dedicate less time to evaluate the effects of synergies and thus lack data for making accurate predictions. Consequently, mandating companies to disclose information for which they lack firm insights appears futile, especially in cases where synergies are not pivotal considerations for undertaking the acquisition.

> I think larger entities think about this [estimating synergies] when they make acquisitions. But for smaller entities, I don't think they

evidence that companies have sufficient data to report on cost synergies without introducing significant costs or complexity.

> Revenue synergies are very hard to predict. They virtually all come down to sales execution and external factors. Cost synergies, on the other hand, can be modelled quite accurately, as I can calculate fairly precisely how much we will save by shutting down a factory or getting rid of an IT system. (CFO 2)

However, we also observe a trade-off between what companies can and are comfortable disclosing. While estimating cost synergies is manageable, other negative aspects might come into play from such disclosures. As cost savings often occur from different operational constraints, such as staff layoffs or relocating operations, introducing such disclosures can lead to undesirable internal turbulence.

> Now, I think you need to look at this in two different ways. One is what companies can provide, and the other is what they are willing to provide. Let's say that a company will have a synergy from closing a central plant, resulting in 100 people losing their jobs. They would probably have quantified that synergy, but they would never disclose it willingly, as this would lead to problems such as early resignations

When a company announces an acquisition, we primarily put in the cost synergies [include them in their financial models], depending on how likely we think it is. From an analyst perspective, I think we seldom include revenue synergies in our forecasts. They are just too uncertain. (Analyst 9)	really quantify this. Forcing them to disclose something that they don't track seems useless to me. (IFRS Expert 2)	and inevitable panic among affected employees. Such situations must be handled cautiously, and employees should not have to find that out in an external filing. (CFO 1)

4.3.4 Potential Effects of Amendments – Not Capping Cash Flows in VIU Calculations

Analysts	Auditors and audit-firm IFRS experts	Company representatives
On the discussion of whether or not to cap cash flows included in VIU calculations, the interviewees generally view this as a negative change, as it will lead to increased management optimism, too aggressive cash flow projections, and a lower chance of impairment. We also find concerns from a comparability perspective, as this amendment enables companies to choose whether to include or exclude such cash flows. If implemented, the interviewed analysts are concerned that this will lead to companies choosing the method that serves their interests best rather than what best reflects reality. Some analysts referred to the two company examples, suggesting that Ericsson would be likely to make different choices. Overall, the analysts are concerned that the amendment would increase management flexibility	Among the audit firm professionals, some interviewees perceive that no longer capping cash flow projections in VIU calculations will lead to additional management optimism and, ultimately, a lower chance of impairment. In addition, our interviews show that the practical implications of implementing this amendment will be limited, as most firms already include all such cash flows in their VIU calculations. Hence, this illustrates a situation of non-compliance with current standards, which, according to our interview respondents, results from a vague framework rather than firms applying opportunistic reporting. Consequently, we find general sceptics among auditing professionals towards both the current framework for VIU calculations and this	When considering the amendment to no longer requiring firms to cap their cashflow projections in the VIU calculations, we find diverging views among company representatives. On the one hand, we find evidence that this amendment seems conceptually wrong and will introduce additional subjectivity. Several company representatives highlight that one of the most significant flaws with the current framework is the necessity of applying substantial subjectivity, arguing that introducing this amendment would only increase this problem and create more room for ambiguity. Thus, we find that introducing this amendment will lead to additional management optimism and a lower chance of timely impairments. I personally believe that you should not include too much information about uncertain future events, so I think this is a strange suggestion [amendment to no longer cap cash flows in VIU]. From my experience working in many companies, synergies and restructurings never play out exactly how they were initially outlined. There are always additional costs to integrate a company other than what you originally foresaw, so I believe not capping cash flows

in connection with goodwill impairment tests. I find it strange why they [the IASB] would even suggest such a proposal. If a company is free to choose its method [whether or not to include such cash flows], why wouldn't they just pick the method that gives them the highest number [the highest VIU]? So, to me, this creates a bigger wiggle room for monkey business. (Analyst 4)	amendment, questioning its practical impact. Theoretically, I think this is the right thing to do [include all cash flows in VIU]. In practice however, I think it will become a slippery slope. I would almost go as far as calling this a "get out of jail free card" for companies to avoid impairment. (Auditor 2) And on the third part [amendment to include all cash flows in VIU], I'm not sure how much that would change because I think most companies don't really think about this. I think they usually use their internal budget and don't really consider whether something should be excluded or not. (Auditor 1)	would only introduce more subjectivity and result in overly optimistic cash flows that will be hard to meet. (CFO 1) On the other hand, some company representatives consider this a non-event and fail to see how this would lead to any material change relative to current practices. They suggest that companies include such cash flows already today, as excluding them makes little sense. Hence, we observe that, potentially, firms do not fully comply with the current standards. In addition, this raises questions regarding auditors' ability to effectively audit goodwill impairment tests. To be absolutely honest, I have never encountered any difficulties with this part of the impairment test [determining which cash flows to include in VIU]. We use the information included in our own budgeting, which includes all our most probable assumptions, of course, including synergies and the restructurings we foresee in the future. To my knowledge, we have never had to adjust our budgets or exclude stuff from the calculations, and I have never heard any complaints about this from our auditors. (CFO 2)

5. Discussion and Concluding Remarks

Based on interviews with 19 Swedish sell-side analysts, this study investigates how analysts perceive the usefulness of M&A information provided under IFRS Accounting Standards. In the interviews, we first establish the analysts' views on the standards prevailing in 2024. Second, the analysts' views on the standards currently in force are used as an anchor for evaluating the amendments proposed by the IASB (ref). In order to provide further context to the analyst interviews, ten additional interviews were made with auditors, audit firm IFRS experts, CFOs and other company representatives.

Previous literature highlights theoretical flaws with the current IAS 36 rules, such as a mismatch in the unit of account at initial recognition and subsequent measurement (Hellman & Hjelström, 2023). Empirical research has pointed towards that impairments are often delayed (Li & Sloan, 2017) and affected by more than mere economic factors (Amel-Zadeh et al., 2021; d'Arcy & Tarca, 2018). Several studies also demonstrate that firms are non-compliant with what is prescribed (e.g. Glaum et al., 2013; Hartwig, 2015; Petersen & Plenborg, 2010), which partly could be explained by the discretion allowed for in the rules (AbuGhazaleh, Al-Hares, & Roberts, 2011; d'Arcy & Tarca, 2018).

While previous literature has presented more effective models for handling the impairment test compared to the one prescribed by IAS 36 (Hellman & Hjelström, 2023; Linsmeier & Wheeler, 2021), the IASB has decided to keep the current impairment test and instead aim to improve the methodology for calculating VIU. Additionally, new disclosure requirements are suggested, aimed at shedding light on the performance of acquisitions (IASB, 2024).

Our study contributes to the accounting literature in three main ways. Firstly, our empirical findings suggest that financial analysts find the current IFRS Accounting Standards for subsequent accounting of goodwill to limit their perceived understanding of underlying M&A performance. The analysts are also skeptical to the quality of the current disclosure practices by questioning the allowance for management discretion (cf. AbuGhazaleh et al., 2011; Amel-Zadeh, Glaum, & Sellhorn, 2021; d'Arcy & Tarca, 2018). There are indications that this leads to unstandardized reporting practices which limit accountability and comparability. The analyst perspective is expanded by interviews with auditors and audit firm IFRS experts, who witness that it is hard to question management assumptions, and firms who question the value of impairment test disclosures. We further find that analysts call for more granularity in terms of CGU disclosures, arguing that this is a necessity for the impairment test to be a useful indicator of the performance of individual acquisitions. In a similar vein, the analysts call for disclosures that facilitate for analysts to replicate the goodwill impairment tests.

Secondly, we contribute by investigating the potential impact of the amendments proposed in the IASB's Business Combinations–Disclosures, Goodwill and Impairment project. Our research, conducted while the project is still ongoing, provides a unique perspective on a field that academia has not yet explored. Our empirical findings indicate that analysts perceive several of the proposed amendments as having low usefulness, primarily due to their reliance on management subjectivity. However, we find compelling evidence that specific amendments, particularly disclosing the key metrics utilized by a company's management to evaluate the success of an acquisition, along with follow-ups on those metrics in subsequent periods, could significantly enhance analysts' understanding of M&A performance. Based on our interviews with company representatives and auditing professionals, this is also an amendment that, in many cases, should not be overly burdensome to provide; a finding that contrasts with the view of significant costs and complexity outlined by preparers during the project (IASB, 2024). Moreover, we find that this amendment has the potential to put pressure on companies and their auditors to recognize timelier impairments, as the performance of prior acquisitions will become more accessible for investor and analyst scrutiny, leading to a better overall framework for goodwill and M&A reporting. However, our findings also highlight that the IASB's timing of the disclosure requirements, which are to be provided in subsequent annual reports (IASB, 2024), is perceived by analysts as being too late.

Thirdly, the study addresses the IASB's choice to solve a recognition/measurement problem (the flawed goodwill impairment test) by providing additional disclosures. Arguably, the IASB solution is unique in that the recognition/measurement unit of account during the post-acquisition period is the CGU (or group of CGUs) subject to the IAS 36 goodwill impairment test whereas the new disclosure requirements pertain to the acquired entity (the acquiree) whereto the goodwill at the acquisition date is attached. However, during the post-acquisition period, the acquiree is not a unit of account subject to recognition/measurement under IFRS Accounting Standards. It is very unusual for the IASB to require financial statement disclosures about a unit of account not recognized by IFRS Accounting Standards.

The IASB's idea is to create a disconnection between the impairment test at the CGU (or group of CGUs) level and the new disclosures at the acquiree level. According to the DP and a body of prior research, the IAS 36 goodwill impairment test will seldom be effective and is not generally fit for the purpose of evaluating whether an acquisition has failed. By providing qualitative and quantitative disclosures about the acquiree, users will instead be able to evaluate M&A performance at the acquiree level. The most important empirical finding of this study is that the financial analysts do not make this disconnection between the CGU and the acquiree – they focus on how the new IFRS 3 disclosures will help them to better forecast accounting numbers, including effects related to the goodwill impairment tests according to IAS 36. This is not surprising. Connectivity between financial statement amounts and note disclosures is expected to be applied by users. There is no reason why such connectivity would not apply between disclosures about the acquiree and the goodwill impairment test for the CGU (or group of CGUs).

As regards the proposed changes to VIU calculations, the interviewed analysts were concerned about the risk of increased management flexibility and further discretion to avoid goodwill impairment. The interviews with auditors, audit firm IFRS experts and company representatives indicated that firms were already applying the suggested approach. The rationale for suggesting an updated version on calculating VIU may be skewed – our empirics indicate that companies today are not drafting two separate budgets to follow the standard but rather do not follow the standard at all.

One limitation of this study is that it partly studies something that is proposed. It has yet to become a reality, and consequently, the actual outcomes of the amendments are not yet known. While true, we deal with this challenge by first evaluating the current situation as an anchor and then evaluate the effect of proposed amendments. By using both general questions and examples to clearly establish the anchor, we believe we are able to capture the incremental effect of the proposed amendments with reasonable reliability.

Another limitation is the use of a Swedish setting. On the one hand, we would expect our results to apply also in other jurisdictions as IFRS reporting is international, investment banks are international, Big Four audit firms, and Swedish large listed firms are international. On the other hand, there will most likely be national flavors in all these areas. In particular, corporate governance and accounting and audit enforcement are primarily national matters. By complementing our analyst interviews with auditors, audit firm IFRS experts, CFOs and other company representatives, we provide further information about the national context at hand.

Data availability

The data that has been used is confidential.

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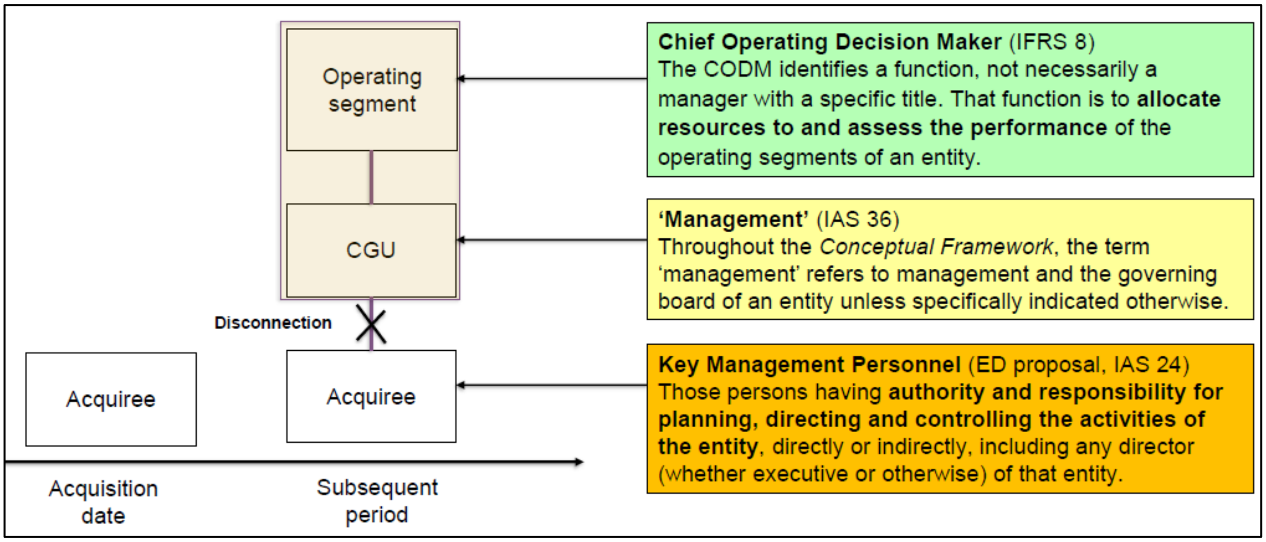
Figure 1. Who is management? Who monitors performance?



Role	Date	Time (min)	Interview location
Analyst 1	12-Feb-24	41	Microsoft Teams
Auditor 1	12-Feb-24	63	On-site
Analyst 2	12-Feb-24	55	On-site
Analyst 3	12-Feb-24	52	On-site
Analyst 4	13-Feb-24	61	On-site
Analyst 5	13-Feb-24	75	On-site
VP Acc. Standards	15-Feb-24	91	Microsoft Teams
Analyst 6	16-Feb-24	46	Microsoft Teams
Auditor 2	19-Feb-24	59	Microsoft Teams
Analyst 7	19-Feb-24	45	Microsoft Teams
Analyst 8	19-Feb-24	41	Microsoft Teams
IFRS Expert 1	20-Feb-24	46	On-site
IFRS Expert 2	22-Feb-24	62	Microsoft Teams
Analyst 9	22-Feb-24	38	Microsoft Teams
Analyst 10	23-Feb-24	50	Microsoft Teams
Analyst 11	23-Feb-24	52	Microsoft Teams
Analyst 12	23-Feb-24	41	Microsoft Teams
Analyst 13	26-Feb-24	43	On-site
Analyst 14	26-Feb-24	46	On-site
Analyst 15	26-Feb-24	47	Microsoft Teams
Analyst 16	27-Feb-24	56	Microsoft Teams
Analyst 17	27-Feb-24	44	Microsoft Teams
CFO 1	28-Feb-24	57	On-site
CFO 2	01-Mar-24	42	Microsoft Teams
CFO 3	01-Mar-24	52	Microsoft Teams
Analyst 18	01-Mar-24	39	On-site
Analyst 19	01-Mar-24	52	On-site
CFO 4	11-Mar-24	62	Microsoft Teams
Auditor 3	13-Mar-24	58	Microsoft Teams
Total time		1,516	
Average time		52	
Median time		52	
Total number of interviews		**29**	

Table 1. Interviews.

Appendix 1

Interview guide structure

Part 1. Introductory questions about the interviewee, including previous work experience. This was followed by general questions about goodwill, goodwill disclosures and goodwill impairments.

Part 2. We presented the Ericsson-Vonage case, using an extract from Ericsson's goodwill note in the annual report (after the Vonage acquisition had been made but before the goodwill impairment) and Ericsson's press release in connection with the goodwill impairment. The goodwill note shows the disclosures provided by the acquirer. The interviewee was asked to comment on the case. Specific follow-up questions were asked.

Part 3. We presented the SSAB-IPSCO case and showed SSAB's goodwill note from the annual report in the year the impairment was made. The goodwill note shows the disclosures provided by the acquirer. The interviewee was asked to comment on the case. Specific follow-up questions were asked.

Part 4. We presented a one-page document including the parts of the amendments focused on in this research project. The interviewees were asked to comment on the suggested amendments. Follow-up questions were adapted to the comments made by the interviewee.