

# International Financial Reporting Standards



## The Impact of IFRS Goodwill Reporting on Financial Analysts' Equity Valuation Judgements: Some Experimental Evidence

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The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

# Key messages in paper

- Analysts may rely on headline earnings to respond quickly when financial information first issued
- But they may be misled by these headline figures
- In the experimental case study, both sets of earnings resulted in analyst valuations that were not ultimately supported by the DCF information
  - Allocation of the acquisition purchase price to goodwill led to overstatement of value
  - Allocation of acquisition purchase price to intangible assets that are amortised led to understatement of value

- What does this mean for us as standard-setters?
  - Headline earnings figures on their own can never provide the whole story
  - Different accounting treatments of different assets/liabilities increases the need to drill down into the detail
  - But a single measurement model is neither achievable or desirable
- Specifically, does IASB have to keep IFRS 3 to allocate the acquisition premium to identifiable intangible assets or not?

# Future research issues

- Some interesting research issues on business combinations:
  - Do we need to have different accountings for business acquisition and asset acquisition?
  - If so, the definition of a business acquisition should be clearly differentiated from the definition of an asset acquisition.
- IASB literatures:
  - IASB, 2015, Agenda paper 13, September
  - IASB, 2015, Post-implementation Review of IFRS 3 Business Combinations, June

# Thank you

