

30 Oct 08

Companies urged to shine light on goodwill

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The Financial Reporting Council has called for companies to ramp up their goodwill stress-testing in an effort to avoid impairment charges on the value of M&A deals.

The watchdog urged companies to pay more attention to their disclosures after seeing a hike in impairment charges as businesses write down goodwill. 'We have already seen an increased incidence of goodwill impairment charges and that trend is highly likely to continue.'

Responding to the tough market conditions, the FRC reviewed the goodwill impairment disclosures made by a sample of UK companies and found the bulk of them were providing boiler-plate disclosures.

'The review found that the most useful and informative disclosures were those that provided information specific to the business,' the FRC said. 'It also concluded that the majority of companies disclosed more generic than specific information, which limited the understanding and insight that could have been to investors.'

The regulator probed goodwill impairment disclosures in 2007 by 32 UK listed companies and assessed the completeness and clarity of statements being made in efforts to comply with international financial reporting standards.



Important step: Thayne Forbes

Goodwill has long been a thorny topic as some companies have lumped the bulk of M&A deal value into it, leading to the idea that they may have overpaid for acquisitions.

Accounting experts have said that the under-reporting of intangible assets such as brand name and customer base, coupled with the high levels of value in goodwill and the general lack of disclosure makes it difficult for shareholders to assess whether acquisitions had generated the expected value for businesses.

Thayne Forbes of Intangible Business said: 'The most important step is for companies to stop taking refuge in the previous accounting climate, which said, "goodwill can't be explained". I think that the factors contributing to goodwill can be detailed to a greater extent.'

As economic conditions have deteriorated, the FRC believed it underscored the importance of the information that companies disclose about goodwill and goodwill charges. The regulator warned it was likely many companies will need to reduce their forecasts of future growth and operating margins.

Ian Wright, director of corporate reporting at the FRC, added: 'Many businesses will find that deteriorating economic conditions have triggered the need for additional disclosures required by IFRS in respect of goodwill. Investors and other users of financial statements are likely to find these disclosures particularly useful in the coming months.'



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