

December 28, 2020

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By e-mail: [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

**Re: Discussion Paper DP/2020/1 – *Business Combinations – Disclosures, Goodwill and Impairment***

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 22,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above-captioned discussion paper.

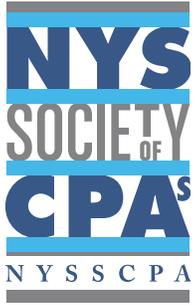
The NYSSCPA's International Accounting and Auditing Committee deliberated the discussion paper and prepared the attached comments. If you would like additional discussion with us, please contact Richard C. Jones, Chair of the International Accounting and Auditing Committee, at (516) 463-6990, at (732) 750-0900, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

A handwritten signature in black ink that reads 'Edward L. Arcara'. The signature is written in a cursive style and is positioned over a faint, light blue watermark of the NYSSCPA logo.

Edward L. Arcara  
President

Attachment



**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON**

**DISCUSSION PAPER DP/2020/1 – *BUSINESS COMBINATIONS – DISCLOSURES,  
GOODWILL AND IMPAIRMENT***

**December 28, 2020**

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**NYSSCPA Staff**

Ernest J. Markezin

## New York State Society of Certified Public Accountants

### Comments on

### Discussion Paper DP/2020/1 – *Business Combinations – Disclosures, Goodwill and Impairment*

We welcome the opportunity to respond to the International Accounting Standards Board's (IASB or the Board) invitation to comment on International Financial Reporting Standards Discussion Paper—*Business Combinations-Disclosures, Goodwill and Impairment* (DP).

#### General Comments

We welcome the DP's objective to provide financial statement users with better information about companies' acquisitions, which helps users better assess the performance of the acquisition and in turn hold management more accountable for the acquisitions. To this end, we agree that the proposals would improve transparency and facilitate better management stewardship.

In addition, we appreciate that some proposals on simplifying the impairment test would help in reducing costs while continuing to provide useful information. We generally agree with many of the proposals in the DP. However, we believe that some points, as described in our detailed comments below, merit further consideration.

#### *Disclosing additional information about acquisitions*

We agree that disclosures about the strategic rationale and management's objective for undertaking the acquisition, as well as disclosures on acquisition synergies, would help users better understand the subsequent performance of the acquisition and ultimately make management more accountable for these decisions. However, we suggest that the IASB consider using a lower management level than the chief operating decision maker (CODM) (i.e., segment or division) as the threshold for providing disclosures on the objectives of the acquisition and the metrics monitored.

In our experience, the CODM typically monitors only a few exceptionally large acquisitions important for strategic decisions, whereas divisional or operation-level management may monitor smaller, yet material acquisitions. In addition, disclosures about monitoring at a lower management level will allow for better alignment with impairment testing. Further, due to the nature of this information, and the related risks and cost associated, we suggest the IASB allow for these disclosures to be provided either in the management commentary in the financial statements or in a separate investor

report, following current market practices, and to avoid significant duplication. It might be presumed that disclosures based on the CODM level for monitoring automatically capture material transactions and they prevent voluminous disclosures. However, we highlight that in all cases these disclosures must adhere to the materiality principle of IAS 1 *Presentation of Financial Statements* (IAS 1).

Lastly, we suggest further clarification and definitions for some of the terms proposed, particularly related to disclosures of acquisition synergies. We believe the Board should consider the commercial sensitivity and related costs associated with preparing and providing the proposed disclosures. While we acknowledge the importance of striking a reasonable balance between users' benefits and preparers' concerns regarding commercial sensitivity and costs for providing these disclosures, we are concerned that faced with providing such strategically-focused information will lead entities to develop boilerplate responses instead of useful strategic information that might lead to unwanted user scrutiny.

#### ***Simplifying and improving the goodwill impairment test***

We agree that it is not feasible to design a significantly more effective impairment test as part of this project that does not include a comprehensive revision of IAS 36 *Impairment of Assets* (IAS 36). Therefore, we suggest the IASB undertake a comprehensive review of IAS 36 focusing on the cash-generating unit (CGU) and on simplifying the impairment testing model. Regarding the CGU concept, we suggest the IASB add guidance on identifying CGUs and on allocating goodwill to CGUs to further simplify and improve the effectiveness of the impairment test.

We do not support replacing the annual quantitative impairment test with an indicator-based approach as proposed because such an approach would result in useful information being lost and would make the impairment test less robust. However, we support the proposed simplifications in estimating value-in-use. We believe those simplifications would reduce costs, complexity and diversity in practice. In making that change regarding value-in-use, we support retaining the "higher of" concept.

Lastly, we encourage the Board to collaborate with the Financial Accounting Standards Board (FASB) on this issue for the sake of global convergence from which users would benefit.

#### ***Amortization for goodwill***

We do not express a preference on either the impairment-only model or the amortization model for the subsequent accounting of goodwill as we recognize that there are benefits and challenges to both approaches.

### ***Subtotal ‘total equity excluding goodwill’***

Although some acquisitions may be financed by share transfers, we do not support presenting the subtotal ‘total equity excluding goodwill’ in the balance sheets that subtotal because it may cast doubts on goodwill as an asset and the reliability of the impairment test. Goodwill is excluded from the calculation of regulatory capital by regulators for financial firms. Moreover, we note that this figure can be computed easily, especially considering the proposals under IASB’s Exposure Draft – *General Presentation and Disclosures*.

### ***Recognizing intangible assets separately from goodwill***

We support the IASB’s view on not developing a proposal to allow some intangible assets to be included in goodwill. We believe recognizing intangibles with goodwill would create reporting inconsistency and reduce transparency. To this end, we suggest the IASB undertake a comprehensive review of IAS 38 *Intangible Assets*.

### ***Other comment***

We suggest that the Board perform a field test of these proposals to better understand if they provide users with sufficiently more useful information about the acquisition that outweighs the additional costs for preparers. This might help the Board better assess the extent the general objective of the DP would be met in practice (i.e., helping users better assess the performance of the acquisition and ultimately improve transparency and improve management accountability).

## **Questions for Respondents**

We offer our responses to the Questions for Respondents (reprinted in italics) below.

### **Question 1**

*Paragraph 1.7 summarizes the objective of the Board’s research project. Paragraph IN9 summarizes the Board’s preliminary views. Paragraphs IN50–IN53 explain that these preliminary views are a package and those paragraphs identify some of the links between the individual preliminary views.*

*The Board has concluded that this package of preliminary views would, if implemented, meet the objective of the project. Companies would be required to provide investors with more useful information about the businesses those companies acquire. The aim is to help investors to assess performance and more effectively hold management to account for its decisions to acquire those businesses. The Board is of the view that the benefits of providing that information would exceed the costs of providing it.*

- a) *Do you agree with the Board's conclusion? Why or why not? If not, what package of decisions would you propose and how would that package meet the project's objective?*

**Response:**

We support the DP's objective to provide investors with better information about acquisitions companies make. Better information will improve investors' understanding of such transactions, and ultimately make management more accountable for these decisions.

- b) *Do any of your answers depend on answers to other questions? For example, does your answer on relief from a mandatory quantitative impairment test for goodwill depend on whether the Board reintroduces amortization of goodwill? Which of your answers depend on other answers and why?*

**Response:**

We support the IASB's preliminary views shared in paragraph IN9 and express the following reservations:

- The CODM may not be the right threshold to use for the proposed disclosures (see our comments in paragraphs that follows related to question 2).
- The IASB should allow providing these disclosures either by cross reference in the management commentary or in the notes to the financial statements (see our comments in paragraphs that follows related to question 2).
- More specific guidance is needed in the proposals for disclosures on acquisition synergies (see our comments in paragraph that follows related to question 4) as well as on how to prepare proforma information (refer to paragraph that follows for our response to question 5).
- We do not have a preference between the amortization model or the impairment-only model for the subsequent accounting of goodwill (refer to paragraphs that follows for our response to question 7).
- We do not support the proposal to present the subtotal 'total equity excluding goodwill' in the balance sheet (refer to paragraphs that follows for our response to question 8).
- We do not support replacing the requirement for an annual quantitative impairment test with an indicator only based approach (see paragraphs that follows for our response to question 9).

**Question 2**

*Paragraphs 2.4–2.44 discuss the Board's preliminary view that it should add new disclosure requirements about the subsequent performance of an acquisition.*

- a) *Do you think those disclosure requirements would resolve the issue identified in paragraph 2.4—investors' need for better information on the subsequent performance of an acquisition? Why or why not?*

**Response:**

We agree that the disclosure requirements prescribed in paragraphs 2.4 – 2.44 of the DP would help investors understand the subsequent performance of the acquisition and assess whether management’s objectives for the acquisition are being met.

We understand that replacing the current requirement to disclose the primary reasons for an acquisition based on paragraph B64(d) of IFRS 3 *Business Combination* (IFRS 3) with a requirement to provide the strategic rationale and management’s objectives for the acquisition provides a logical starting point for comparison in assessing subsequent performance of the acquisition.

However, we note that disclosures about management’s strategic rationale for undertaking the acquisition, the objectives of the acquisition and metrics used to monitor the acquisition may be commercially sensitive. For example, as part of the ‘synergies’ element of the price, a company may have planned restructurings to fully benefit from such synergies. Therefore, we suggest the IASB consider the balance between the benefits to investors and the commercial sensitivity of these disclosures.

- b) *Do you agree with the disclosure proposals set out in (i)–(vi) below? Why or why not?*
- i. *A company should be required to disclose information about the strategic rationale and management’s (the chief operating decision maker’s (CODM’s)) objectives for an acquisition as at the acquisition date (see paragraphs 2.8–2.12). Paragraph 7 of IFRS 8 Operating Segments discusses the term ‘chief operating decision maker’.*
  - ii. *A company should be required to disclose information about whether it is meeting those objectives. That information should be based on how management (CODM) monitors and measures whether the acquisition is meeting its objectives (see paragraphs 2.13–2.40), rather than on metrics prescribed by the Board.*
  - iii. *If management (CODM) does not monitor an acquisition, the company should be required to disclose that fact and explain why it does not do so. The Board should not require a company to disclose any metrics in such cases (see paragraphs 2.19–2.20).*
  - iv. *A company should be required to disclose the information in (ii) for as long as its management (CODM) continues to monitor the acquisition to see whether it is meeting its objectives (see paragraphs 2.41–2.44).*
  - v. *If management (CODM) stops monitoring whether those objectives are being met before the end of the second full year after the year of acquisition, the company should be required to disclose that fact and the reasons why it has done so (see paragraphs 2.41–2.44).*
  - vi. *If management (CODM) changes the metrics it uses to monitor whether the objectives of the acquisition are being met, the company should be*

*required to disclose the new metrics and the reasons for the change (see paragraph 2.21).*

**Response:**

We suggest the IASB permit these disclosures to be provided either in the notes to the financial statements or, if this information is already presented elsewhere and is available to users on the same terms and time as the financial statements, by cross reference to some other statement such as the management commentary. We note that some of this information may be best placed in the management commentary due to its forward looking and a non-financial nature.

In addition, the Board should also consider the audit impact for these proposals. Auditing can result in more discipline in preparing the information to be disclosed, especially if such information is included within the notes to the financial statements. However, we note that there are associated compliance costs (and additional controls for preparers) as well as it could be difficult to obtain reasonable assurance on forward looking information and management's expectations.

- c) *Do you agree that the information provided should be based on the information and the acquisitions a company's CODM reviews (see paragraphs 2.33–2.40)? Why or why not? Are you concerned that companies may not provide material information about acquisitions to investors if their disclosures are based on what the CODM reviews? Are you concerned that the volume of disclosures would be onerous if companies' disclosures are not based on the acquisitions the CODM reviews?*

**Response:**

We support taking a management approach rather than prescribing metrics to monitor and measure whether the acquisition's objectives are being met. This would ensure company specific and relevant information and therefore avoid any boilerplate disclosures.

However, we believe that the CODM level might not be appropriate for monitoring the acquisition. The CODM typically monitors only a few very large acquisitions, mainly those that are important for an entity's long-term strategic objectives, whereas a lower management level may monitor smaller, yet material acquisitions. This is the case especially in large global entities for which acquisitions are often monitored by segment or divisional management rather than by the CODM.

It might be presumed that disclosures based on the CODM level for monitoring automatically capture material transactions and they prevent voluminous disclosures. However, we highlight that in all cases these disclosures must adhere to the materiality principle of IAS 1 *Presentation of Financial Statements* (IAS 1).

We suggest the IASB consider a lower management level as the threshold for monitoring the acquisitions (i.e., the level at which goodwill is being monitored internally) and to disclose metrics used by this level of management. However, we also suggest the Board consider the relationship between these metrics and indicators and evidence considered for impairment testing based on paragraphs 12 – 16 of IAS 36. This would become easier if monitoring is also done at a lower management level (i.e., the same as monitoring for impairment).

- d) *Could concerns about commercial sensitivity (see paragraphs 2.27–2.28) inhibit companies from disclosing information about management’s (CODM’s) objectives for an acquisition and about the metrics used to monitor whether those objectives are being met? Why or why not? Could commercial sensitivity be a valid reason for companies not to disclose some of that information when investors need it? Why or why not?*

**Response:**

We suggest that the Board provide further clarity for the required level of disclosures to reduce the potential for commercial sensitivity arguments. This would also ensure company specific and relevant information and therefore avoid any boilerplate disclosures.

- e) *Paragraphs 2.29–2.32 explain the Board’s view that the information setting out management’s (CODM’s) objectives for the acquisition and the metrics used to monitor progress in meeting those objectives is not forward-looking information. Instead, the Board considers the information would reflect management’s (CODM’s) targets at the time of the acquisition. Are there any constraints in your jurisdiction that could affect a company’s ability to disclose this information? What are those constraints and what effect could they have?*

**Response:**

We suggest that the Board evaluate these proposals with users and preparers as they consist of represent new disclosure requirements. This will help preparers understand how to prepare this information and will help the Board understand what information is actually monitored by management and might be available for disclosure, if the proposals meet the Board’s objectives, and provide users with more useful information related to an acquisition.

**Question 3**

*Paragraphs 2.53–2.60 explain the Board’s preliminary view that it should develop, in addition to proposed new disclosure requirements, proposals to add disclosure objectives to provide information to help investors to understand:*

- *the benefits that a company’s management expected from an acquisition when agreeing the price to acquire a business; and*
- *the extent to which an acquisition is meeting management’s (CODM’s) objectives for the acquisition.*

*Do you agree with the Board's preliminary view? Why or why not?*

**Response:**

We understand that disclosures about the benefits expected from the acquisition would help investors understand the rationale behind the price. However, such information may sometimes be commercially sensitive, as noted in our response to question 2.

In addition, we note that disclosures about the extent to which an acquisition is meeting management's objectives may result in boilerplate disclosures. We suggest the Board consider this item in conjunction with the preliminary views expressed in paragraph 2.45b) of the DP.

**Question 4**

*Paragraphs 2.62–2.68 and paragraphs 2.69–2.71 explain the Board's preliminary view that it should develop proposals:*

- *to require a company to disclose:*
  - *a description of the synergies expected from combining the operations of the acquired business with the company's business;*
  - *when the synergies are expected to be realized;*
  - *the estimated amount or range of amounts of the synergies; and*
  - *the expected cost or range of costs to achieve those synergies; and*
- *to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities.*

*Do you agree with the Board's preliminary view? Why or why not?*

**Response:**

We agree that the acquisition synergies disclosures based on paragraph 2.64 of the DP helps users to better understand the potential impact of a business combination on the combined financial statements, while striking a reasonable balance with preparers' concerns for commercially sensitive disclosures.

However, paragraph 2.65 of the DP suggests that this proposal is for all transactions with 'material' synergies, and not only those that the CODM reviews. This is not consistent with proposed disclosures in the other parts of the DP (e.g. paragraph 2.10 of the DP), for which we have provided our comments in our response to question 2. We suggest the IASB attempt to better align these proposals.

In terms of cost benefit considerations, we suggest the Board provide an exemption for disclosing amounts and costs of synergies if such information is not readily available. Therefore, preparers would be expected to disclose such information only if it has been gathered in the deal process.

In addition, we suggest the IASB clarify the intended basis of the information to be disclosed: a standardized approach or a management approach. If a standardized

approach is followed, requirements should be as specific as possible, including: a. defining ‘synergies’; b. specifying whether ‘estimated amount or range of amounts of the synergies’ relates to synergies in total or to each type of expected synergy; and c. clarifying if a detailed pattern of synergy realization by type (or in total) or simply a timeframe by type (or in total) should be disclosed.

Further, we suggest the IASB specify whether these disclosures should be based on management’s synergy expectations in the deal process or after closing of the transaction. While synergy expectations initially included in the deal model will better explain the agreed purchase price, the synergy expectations as of closing might be a better benchmark for assessing the subsequent realization of synergies, and thus performance of the acquisition relative to management’s expectations.

We also suggest that the IASB consider proposing disclosures of subsequent changes in the initial synergy expectations as these may be useful for assessing the performance of an acquisition and are interrelated with disclosures on monitoring (please refer to our response to question 2). Even though we understand that investors seek information about synergies (as part of goodwill) to justify the price for the acquisition, we note that expected synergies do not necessarily reconcile to or explain in full the consideration transferred and resulting goodwill recognized. Expected synergies are not necessarily a subtotal of goodwill; they may be greater than the respective element included in the amount of goodwill recognized in the transaction, i.e., the acquirer’s expectations might exceed the value recorded at acquisition.

We also recommend the Board specify whether disclosures on other goodwill components paid for (i.e., workforce or going concern element) based on paragraph 2.68 of the DP, should be qualitative or quantitative. Acquisition pricing result from negotiations and might differ from long-term value received (and anticipated) by the acquirer; therefore, the Board should also clarify if and/or how disclosures of goodwill components acquired reconcile to goodwill and consideration transferred. Furthermore, we note that preparers might be reluctant to provide quantitative information because putting a price on some of the components may be challenging.

We support the Board’s proposal to specifically disclose certain major classes of assumed liabilities. This information is already an integral part of the deal reporting, therefore, there should be no additional costs for preparers, while providing useful information for investors.

### **Question 5**

*IFRS 3 Business Combinations requires companies to provide, in the year of acquisition, pro forma information that shows the revenue and profit or loss of the combined business for the current reporting period as though the acquisition date had been at the beginning of the annual reporting period.*

*Paragraphs 2.82–2.87 explain the Board’s preliminary view that it should retain the requirement for companies to prepare this pro forma information.*

a) *Do you agree with the Board’s preliminary view? Why or why not?*

**Response:**

We support retaining the requirement to prepare the pro forma information as this information would help investors understand the annual impact of the acquired business and facilitate annual analysis. However, we suggest the IASB provide more guidance on how to prepare and present this proforma information and it should consider requiring preparers to disclose the basis of preparation. These disclosures would help preparers and would improve consistency and auditability.

We agree with the Board’s preliminary view to replace the term ‘profit or loss’ with the term ‘operating profit before deducting acquisition-related costs and integration costs’ based on paragraph 2.77a) of the DP. However, we suggest the Board define or provide guidance on what entails ‘acquisition-related costs’ and ‘integration costs’ in order to ensure comparability.

We support adding a requirement to disclose cash flows from operating activities as provided in paragraph 2.77b) of the DP, as such information helps investors in their cash flows analysis.

However, we note that the Board’s preliminary views in paragraph 2.45, 2.90 and 2.91 of the DP when considered together with the current IFRS 3 requirements may be voluminous and costly for preparers. Therefore, we suggest that the Board review the existing and proposed disclosure requirements and remove information that is not useful to investors. This could be field tested with the proposals of the Exposure Draft *General Presentations and Disclosures* (PFS ED) in order to be efficient in the process that follows this DP.

b) *Should the Board develop guidance for companies on how to prepare the pro forma information? Why or why not? If not, should the Board require companies to disclose how they prepared the pro forma information? Why or why not?*

**Response:**

Refer to above response to (a).

*IFRS 3 requires companies to disclose the revenue and profit or loss of the acquired business after the acquisition date, for each acquisition that occurred during the reporting period. Paragraphs 2.78–2.81 explain the Board’s preliminary view that it should develop proposals:*

- 1. to replace the term ‘profit or loss’ with the term ‘operating profit before acquisition-related transaction and integration costs’ for both the pro forma information and information about the acquired business after the acquisition date. Operating profit or loss would be defined as in the Exposure Draft General Presentation and Disclosures.*

2. *to add a requirement that companies should disclose the cash flows from operating activities of the acquired business after the acquisition date, and of the combined business on a pro forma basis for the current reporting period.*
- c) *Do you agree with the Board's preliminary view? Why or why not?*

**Response:**

Refer to above response (a).

**Question 6**

*As discussed in paragraphs 3.2–3.52, the Board investigated whether it is feasible to make the impairment test for cash-generating units containing goodwill significantly more effective at recognizing impairment losses on goodwill on a timely basis than the impairment test set out in IAS 36 Impairment of Assets. The Board's preliminary view is that this is not feasible.*

- a) *Do you agree that it is not feasible to design an impairment test that is significantly more effective at the timely recognition of impairment losses on goodwill at a reasonable cost? Why or why not?*

**Response:**

We agree that it is not feasible to design a significantly more effective impairment test as part of this project that does not include a comprehensive revision of IAS 36.

Despite the challenges of applying the cash-generating units (CGU) concept of the impairment model, it is questionable whether a direct testing for goodwill impairment would be feasible for the following reasons:

1. Goodwill is a residual and as such cannot be measured separately from the business to which it relates; and
2. Goodwill is composed of acquired goodwill and internally generated goodwill which cannot be separated for purposes of testing the acquired component only.

Therefore, we suggest the IASB undertake broader research project on IAS 36, including a comprehensive review focusing on the CGU and impairment testing concepts.

- b) *If you do not agree, how should the Board change the impairment test? How would those changes make the test significantly more effective? What cost would be required to implement those changes?*

**Response:**

Not applicable, we agree.

- c) *Paragraph 3.20 discusses two reasons for the concerns that impairment losses on goodwill are not recognized on a timely basis: estimates that are too optimistic; and shielding. In your view, are these the main reasons for those concerns? Are there other main reasons for those concerns?*

**Response:**

We agree that over-optimism and ‘shielding’ are important reasons for the concerns about goodwill impairment losses. Although ‘shielding’ cannot be completely avoided due to the CGU concept and the indirect testing, there are different aspects to be considered concerning “too optimistic” estimates. These include the inherent estimation uncertainty, the incentive effect of the business plan, management bias, window dressing, and the key significance of the last planning period for the terminal value cash flow (one of the main drivers for the recoverable amount in a discounted cash flow model).

We do not support the Board’s view that over-optimism should only be dealt with by auditors and regulators because different aspects of over-optimistic estimates (refer to paragraph for our response to question 6) are also the responsibility of preparers. Using their professional skepticism and judgment, auditors regularly challenge management’s assumptions and estimates as required by auditing standards. This also is a significant focus area of audit regulators. However, auditors do not have the in-depth knowledge of the company, its operations, and its possible development compared to that of management of the company and those charged with governance. Although challenge by auditors may temper any over optimism by management, we believe any management biases can be further tempered by introducing a requirement to perform and disclose reasonableness tests.

- d) *Should the Board consider any other aspects of IAS 36 in this project as a result of concerns raised in the Post-implementation Review (PIR) of IFRS 3?*

**Response:**

Refer to responses provided above.

**Question 7**

*Paragraphs 3.86–3.94 summaries the reasons for the Board’s preliminary view that it should not reintroduce amortization of goodwill and instead should retain the impairment-only model for the subsequent accounting for goodwill.*

- a) *Do you agree that the Board should not reintroduce amortization of goodwill? Why or why not? (If the Board were to reintroduce amortization, companies would still need to test whether goodwill is impaired.)*

**Response:**

We recognize that there are benefits and challenges to both the impairment-only model and the amortization model for the subsequent accounting for goodwill. Therefore, we do not express a preference for either model.

- b) *Has your view on amortization of goodwill changed since 2004? What new evidence or arguments have emerged since 2004 to make you change your view, or to confirm the view you already had?*

**Response:**

No, our view has not changed.

- c) *Would reintroducing amortization resolve the main reasons for the concerns that companies do not recognize impairment losses on goodwill on a timely basis (see Question 6(c))? Why or why not?*

**Response:**

Reintroducing amortization would help resolve some concerns on goodwill impairment (refer to our response to question 6) as it takes pressure off the impairment test. However, by itself this does not provide reason for us to express a preference on the subsequent accounting for goodwill model.

- d) *Do you view acquired goodwill as distinct from goodwill subsequently generated internally in the same cash-generating units? Why or why not?*

**Response:**

In our view, acquired goodwill differs from goodwill subsequently generated internally in the same CGU in these aspects:

1. Initial measurement: acquired goodwill is calculated as a residual and is composed of different elements than those that would be included in the valuation of internally generated goodwill.
2. Composition: acquired goodwill includes elements (i.e., deferred taxes, overpayments) that are not part of internally generated goodwill which results from business activities.

- e) *If amortization were to be reintroduced, do you think companies would adjust or create new management performance measures to add back the amortization expense? (Management performance measures are defined in the Exposure Draft General Presentation and Disclosures.) Why or why not? Under the impairment-only model, are companies adding back impairment losses in their management performance measures? Why or why not?*

**Response:**

We understand that determining the useful life of goodwill would be challenging should amortization of goodwill be reintroduced. We note that it would also be

challenging to transit from one method to the other, especially considering the significant goodwill amounts in balance sheets.

- f) *If you favor reintroducing amortization of goodwill, how should the useful life of goodwill and its amortization pattern be determined? In your view how would this contribute to making the information more useful to investors?*

**Response:**

The IASB should consider the feedback received from respondents who favor reintroducing amortization in order to understand how to determine the useful life of goodwill. In case a standardized useful life is used as a rebuttable presumption, we suggest consulting with preparers in determining this ‘cap.’

**Question 8**

*Paragraphs 3.107–3.114 explain the Board’s preliminary view that it should develop a proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill. The Board would be likely to require companies to present this amount as a free-standing item, not as a subtotal within the structure of the balance sheet (see the Appendix to this Discussion Paper).*

- a) *Should the Board develop such a proposal? Why or why not?*

**Response:**

As discussed in the General Comments section and in b) below, we do not support the Board’s preliminary view to develop a proposal to require companies to present on their balance sheets the amount of ‘total equity excluding goodwill.’

- b) *Do you have any comments on how a company should present such an amount?*

**Response:**

We believe that the purpose and benefit of this proposal are unclear because:

1. The figure can be computed easily, especially when considering the proposals under the IASB’s Exposure Draft– *General Presentation and Disclosures* (Primary Financial Statements) (PFS ED). Based on the PFS ED, goodwill shall be required to be presented as a separate line item in the balance sheet. This is often the case even today where the goodwill item is presented as a separate item either on the face of the statement of financial position or in the notes.
2. If considered in conjunction with the respective proposals of the PFS ED, we do not believe that this amount results in useful information.
3. Subtracting goodwill from equity might suggest that goodwill is not as “reliable” an asset as the other assets recognized, contradicting the accounting and casting further doubt on the reliability and usefulness of the impairment test. In the worst-case scenario, it may even cast doubt on whether it meets the asset definition under IFRS.

Notwithstanding our comments we have supported presenting a single line item in the statement of financial position.

### **Question 9**

*Paragraphs 4.32–4.34 summarize the Board’s preliminary view that it should develop proposals to remove the requirement to perform a quantitative impairment test every year. A quantitative impairment test would not be required unless there is an indication of impairment. The same proposal would also be developed for intangible assets with indefinite useful lives and intangible assets not yet available for use.*

*a) Should the Board develop such proposals? Why or why not?*

#### **Response:**

We do not support the Board’s preliminary view to remove the requirement to perform a quantitative impairment test for goodwill as well as for intangible assets with indefinite useful lives and intangible assets not yet available for use because:

1. Useful information would be lost (i.e., regular disclosure of discount rates, growth rates and key assumptions as required by paragraph 134 of IAS 36).
2. The annual test prompts management to assess cash generated processes within the business and promotes good governance. This is also a strong reason to retain the impairment model for subsequent accounting for goodwill.
3. It further undermines the robustness of the impairment testing process, including triggering events testing (refer to our response to question 9).
4. The cost benefit considerations, which are the main driver for this proposal, should be reassessed as noted in our response to question 9.

*b) Would such proposals reduce costs significantly (see paragraphs 4.14–4.21)? If so, please provide examples of the nature and extent of any cost reduction. If the proposals would not reduce costs significantly, please explain why not.*

#### **Response:**

We point out that paragraph 99 of IAS 36 already allows relying on the most recent goodwill impairment test, in limited circumstances, provided there was considerable headroom in the past. However, this simplification does not seem to be working in practice. Therefore, we suggest the IASB seek to understand why this is the case and examine how this simplification could be strengthened. This approach would support the objective to lower costs of impairment testing without removing the annual test.

In addition to supporting the annual test, we would like to outline that the indicator-based approach may not necessarily result in cost benefits because:

1. Qualitative trigger testing would gain considerably more prominence and thus would need a robust and supportable analysis and documentation. This might be a costly exercise, especially when initially applied and when considering additional assurance costs.

2. The triggers in IAS 36 are not sufficiently robust and specific as to use them as a “gatekeeper.” Under the current rules, this was tolerable because the annual test provided discipline over the process. Therefore, we suggest improving guidance on identifying impairment indicators.
  3. If no quantitative test is performed and thus the current disclosures in paragraph 134 of IAS 36 do not apply, comprehensive (new) disclosures concerning the qualitative trigger testing would be reasonable and provide useful information. Developing and providing these comprehensive disclosures might further increase costs.
- c) *In your view, would the proposals make the impairment test significantly less robust (see paragraphs 4.22–4.23)? Why or why not?*

**Response:**

We agree that the proposals may make the impairment test significantly less robust because:

1. There is a risk of losing valuation expertise, especially for preparers.
2. It will be more difficult for both preparers and auditors to assess the reasonableness of the current set of assumptions and input factors of an impairment test performed for the first time after several years, since there will be no history of quantitative information against which to benchmark the test.
3. Management would have to exercise more judgement in identifying indicators of impairment. For this purpose, the Board should revise the list of indicators in paragraph 12 of IAS 36.

We consider this proposal to be closely linked with the subsequent accounting for goodwill model. Therefore, in case the Board maintains its preliminary view of retaining the impairment model, we suggest also retaining the annual quantitative impairment test. However, the cost-benefits of this proposal could be reevaluated if the Board decides to reintroduce amortization.

**Question 10**

*The Board’s preliminary view is that it should develop proposals:*

- *to remove the restriction in IAS 36 that prohibits companies from including some cash flows in estimating value in use—cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset’s performance (see paragraphs 4.35–4.42); and*
- *to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use (see paragraphs 4.46–4.52).*

*The Board expects that these changes would reduce the cost and complexity of impairment tests and provide more useful and understandable information.*

- a) *Should the Board develop such proposals? Why or why not?*

**Response:**

We agree with these proposals as both would reduce costs and susceptibility of the impairment test to errors, without compromising the decision usefulness of the information provided.

In terms of the proposal in paragraph 4.43 of the DP, excluding cash flows arising from a future uncommitted restructuring or from improving or enhancing the asset's performance, is artificial and is done solely for the purposes of impairment testing. It does not represent business reality or the corporate planning process. An alignment of the cash flows used in the impairment test and corporate planning would enhance consistency with other information provided (i.e., in the management commentary).

However, we support this proposal as our interpretation of the scope is broad: other cash flows (i.e., in view of an expansion or enhancement) shall also be allowed in the value-in-use (ViU) calculation if they improve the capacity in a CGU. However, we have noted that the current wording may be subject to different interpretations and may be read as limited only to the cash flows listed. Therefore, we recommend that the IASB improve the wording to avoid such narrow-scoped interpretations.

In terms of the proposal in paragraph 4.53 of the DP, we agree using post-tax data because pre-tax calculations are not feasible. However, we suggest that the Board specify the meaning of "post-tax" in order to avoid any new diversity in practice (i.e., concerning the treatment of deferred tax assets on tax loss carryforwards in the impairment test). To this end, the IASB should clarify how this proposal aligns with IAS 12 Income Taxes.

- b) *Should the Board propose requiring discipline, in addition to the discipline already required by IAS 36, in estimating the cash flows that are the subject of this question? Why or why not? If so, please describe how this should be done and state whether this should apply to all cash flows included in estimates of value in use, and why.*

**Response:**

Although the removal of these restrictions would result in a high convergence of ViU and fair value less costs of disposal (FVLCD) in practice, we suggest retaining the "higher of" concept. The ViU allows the inclusion of entity-specific synergies, better assesses "for keeping," and is more easily documented. Furthermore, there may be differences between the two in cases where the fair value is observable (i.e., a listed subsidiary).

We believe that there is enough discipline as currently required by IAS 36. The standard already requires projections to be based on the most recent budgets approved by management. This should prevent the inclusion of cash flows that cannot be substantiated at all, no matter what they specifically relate to.

### **Question 11**

*Paragraph 4.56 summarizes the Board's preliminary view that it should not further simplify the impairment test.*

- a) *Should the Board develop any of the simplifications summarized in paragraph 4.55? If so, which simplifications and why? If not, why not?*

**Response:**

We do not support the first proposal as per paragraph 4.55a) of the DP to add more guidance on the difference between entity-specific inputs used in ViU and market-participant inputs used in FVLCD. We think that the current guidance is already comprehensive and that the problem is more with the practical application of the guidance.

- b) *Can you suggest other ways of reducing the cost and complexity of performing the impairment test for goodwill, without making the information provided less useful to investors?*

**Response:**

In terms of the second proposal in paragraph 4.55b) of the DP, we believe that the reduction to a one method only option should not be pursued, as noted in our response to question 10.

We do not support the alternative to require a company to select the method of management's intent of recovery either. We note that it may be difficult to operationalize relevant criteria in case the intent is to dispose of the asset(s) but the criteria in IFRS 5 Non-current assets held for sale and discontinued operations (IFRS 5) are not met.

We do not support the third proposal of paragraph 4.55c) on allowing companies to test goodwill at the entity level or at the level of reportable segments as this would worsen the shielding problem.

We would appreciate more guidance on identifying CGUs and on allocating goodwill to CGUs as considered in paragraph 4.55d) of the DP. This would further simplify and improve the effectiveness of the impairment test. To this end, we suggest leveraging the proposed disclosures on synergies for also refining the requirements for goodwill allocation to CGUs.

### **Question 12**

*Paragraphs 5.4–5.27 explain the Board's preliminary view that it should not develop a proposal to allow some intangible assets to be included in goodwill.*

- a) *Do you agree that the Board should not develop such a proposal? Why or why not?*

**Response:**

We agree with the Board's preliminary view not to develop a proposal to allow some intangible assets to be included in goodwill because a comprehensive revision of accounting for internally generated or acquired intangible assets is not in the scope of the current project.

We believe it would be inconsistent not to account for recognizable acquired intangible assets separately considering the ever-increasing importance of intangibles in today's business models. Investors want to be able to better compare companies that grow through acquisitions and those that grow organically. We therefore suggest the IASB undertake a comprehensive project on IAS 38 *Intangible Assets*.

In addition, subsuming certain intangibles into goodwill would further inflate goodwill balances, making their interpretation even more difficult and aggravating the problems that triggered the DP, in particular (but not only) in case amortization will not be reintroduced.

Furthermore, we think that the benefits of the information provided by current practice outweigh the costs. The recognition and measurement of intangible assets in a purchase price allocation can be complex and costly, depending on the size of the transaction and the business model. However, today, purchase price allocations follow established rules that are commonly accepted by both valuation experts and the accounting profession.

We also point out that a robust purchase price allocation process and documentation automatically generates significantly more information than an entity is currently required to disclose. This includes information on acquired intangibles (i.e., the leading intangible asset, their useful life), how the internal rate of return compares to the cost of capital, which if disclosed may provide investors with more useful information on acquisitions. Nonetheless, we recognize that this information may be commercially sensitive. Therefore, if the IASB decides to pursue this idea, it is important to strike a balance between the usefulness of this information to investors and commercial sensitivity concerns of preparers.

- b) *If you do not agree, which of the approaches discussed in paragraph 5.18 should the Board pursue, and why? Would such a change mean that investors would no longer receive useful information? Why or why not? How would this reduce complexity and reduce costs? Which costs would be reduced?*

**Response:**

Not applicable, we agree.

- c) *Would your view change if amortization of goodwill were to be reintroduced? Why or why not?*

**Response:**

Our view would not change if amortization of goodwill is reintroduced (please refer to our response related to question 7).

**Question 13**

*IFRS 3 is converged in many respects with US generally accepted accounting principles (US GAAP). For example, in accordance with both IFRS 3 and US GAAP for public companies, companies do not amortize goodwill. Paragraphs 6.2–6.13 summarize an Invitation to Comment issued by the US Financial Accounting Standards Board (FASB).*

*Do your answers to any of the questions in this Discussion Paper depend on whether the outcome is consistent with US GAAP as it exists today, or as it may be after the FASB's current work? If so, which answers would change and why?*

**Response:**

We have always supported the potential convergence of global reporting standards as necessary to improve comparability and transparency in global markets. Therefore, we suggest the IASB and FASB to collaborate during these projects and aim for converged proposals.

**Question 14**

*Do you have any other comments on the Board's preliminary views presented in this Discussion Paper? Should the Board consider any other topics in response to the PIR of IFRS 3?*

**Response:**

As noted in our response to questions 2 through 5, many of the proposals of the Board consist of new disclosure requirements or changes to current practices. Therefore, we suggest the Board test these proposals to understand if the proposals provide users with more useful information for the acquisition while not being unduly costly for preparers. Ultimately, such testing might better help the Board assess to what extent the general objective of the DP would be met in practice.