19 March 2020

IFRS Interpretations Committee
7 Westferry Circus
Canary Wharf
London E14 4HD

Dear Sirs,

Re: DP/2020/1 Business Combinations—Disclosures, Goodwill and Impairment

Thank you for the opportunity to comment on the DP/2020/1 Business Combinations—Disclosures, Goodwill and Impairment. I would like to provide a small input to this discussion:

**I am in favour of reintroducing amortisation of goodwill.**

Obviously the IASB is fully aware of all the arguments for (and against) reintroducing amortisation of goodwill, therefore I won't repeat them in this letter. I think it is important to stress that for the impairment model to meet its objective, it has to be done rigorously. In my opinion, the time since the impairment-only model was introduced has shown that:

- companies use overly optimistic cash flow projections in their impairment tests
- in low-interest rate environment, majority of the value in use comes from terminal value of cash flow projections
- terminal value is calculated based on cash flows estimated a few years into the future with management judgement as a key input, and therefore, in practice, value in use is impossible to be sufficiently challenged by auditors. *'Sophisticated investors (i.e. price makers) generally write-off goodwill long before management, understanding the moral hazard of management's assessment'.*[1]

I would like to end my letter with a quote by Mr Hans Hoogervorst from his speech delivered on 19 December 2019 in Paris. While it relates to impairment of financial assets, I believe it applies to impairment of goodwill as well:

*"In the AFS* [available-for-sale] *category, you only recognised profits on equity investment when you sold the financial instrument in question. The category was subject to impairment, but deciding when to impair was subject to judgement and there was wide variety in practice. Some companies only*

[1] CFA Institute letter to Competition and Markets Authority on Statutory Audit Service Market Study (5 February 2019)

*recognised losses after a prolonged decline in value of up to 50%. Despite many efforts, nobody has been able to come up with a robust impairment model for equity investments.*

*In practice, the AFS category gave companies ample leeway to decide when to recognise their gains and losses in their equity portfolios. Was that convenient? Certainly. But did it result in accounting that fully reflected economic reality? Not necessarily."*

- *Hans Hoogervorst,*
  *Paris 19 Dec 2019*

Yours faithfully,

Marek Muc
Founder of IFRScommunity.com