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

FAR, the Institute for the Accountancy Profession in Sweden, har been invited to comment on the above request for information: *Discussion Paper DP/2020/1 Business Combinations - Disclosures, Goodwill and Impairment*. FAR welcomes this opportunity to comment on the request.

FAR disagrees with the Board's preliminary view not to reintroduce amortization of goodwill. FAR thinks that there are arguments both for and against reintroducing amortization but believes the arguments for reintroducing goodwill amortization is much stronger. Based on the practice that we have observed since 2005 when goodwill amortization was prohibited, goodwill amounts are accumulating fast in the balance sheets of entities applying IFRS as these amounts often are shielded by the cash flows from large cash generating units that are defined on a rather high level (not seldom at operating segment level) and where also management optimism contributes to the absence of impairment losses on goodwill. The outcome from the last 15 years shows a surprisingly low level of impairment losses compared to what one would expect. According to studies of all listed companies in Sweden, the level of impairment losses on goodwill varied between 0.6% and 1.0% during the five-year period 2014–2018. If this pace continues, it will take more than 100 years before the present goodwill will disappear from the balance sheets. The proportion of companies where recognized goodwill amounts to more than 50% of shareholders' equity have increased from 31% in 2005 to 40% in 2018 and this trend is expecting to increase. FAR also thinks that goodwill arisen from a business combination is an asset that is "consumed" over time and that it is best reflected in the financial statement by making amortization. Amortization is an accounting method that allocate the expenditure as a cost over the period it is consumed. If acquired goodwill is not amortized, it will be replaced by internally generated goodwill. Amortization therefore ensures that the cost of acquired goodwill is recognized in profit or loss and that internally generated goodwill will to a less extent be recognized in the statement of financial position. We cannot see why goodwill should be treated differently compared to other assets

FAR believes that the IASB should develop proposals to remove the requirement to perform a quantitative impairment test every year, but only if the IASB also reintroduces amortization of

goodwill. In FARs view, reintroducing goodwill amortization would reduce reliance on the impairment test and justify removing the requirement for an annual impairment test. A combination of reintroducing goodwill amortization and applying an indicator-only approach to impairment testing would have the potential benefit of reducing complexity and allow cost savings for preparers by reducing the frequency of the test. If the IASB decides not to reintroduce amortization of goodwill, FAR is not in favor of removing the requirement to perform a quantitative impairment test every year, as FAR believes that the discussed problem of impairment losses on goodwill being recognized too late may be accentuated.

FAR agrees with the 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. FAR also agrees with the proposal to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use.

FAR disagree with the Board's view that it should develop a proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill. FAR thinks that presenting an amount of equity excluding goodwill implies that goodwill is not qualified for being recognized as an asset and therefore should be excluded from equity.

FAR believes that the proposed additional requirements about the subsequent performance of an acquisition goes too far. FAR also disagrees with the proposed disclosure requirements of when any synergies are expected to be realized, the estimated amount (or range of amounts) of the synergies and the expected range of cost to receive these synergies as FAR believes it's doubtful that companies monitors and have these detailed calculations of synergies. FAR also questions whether the resulting benefits from disclosure of quantitative amounts of synergies would outweigh the costs. FAR is also concerned about the auditability and enforceability of the proposed disclosure requirements. Metrics that will be provided are non-GAAP measures and such information could be difficult to prepare and audit. In addition, acquired business may be fully integrated with other businesses and this will potentially make it even more difficult to prepare and audit the information.

FAR agrees with the Board's preliminary view that it should retain the proforma information currently in IFRS 3. FAR also agrees with the Board's preliminary view that it should develop proposals to replace the term "profit or loss" with the term "operating profit before acquisition-related transaction and integration costs", and suggests that the Board provides a definition for the new concepts of "acquisition-related" and "integration cost". FAR thinks it is relevant that companies disclose how they have prepared the pro forma information. However, we do not think the Board should develop guidance for how that information should be prepared.

FAR disagrees with the Board's preliminary view 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. FAR questions whether the

resulting benefits from disclosure of cash flows would outweigh the costs, especially when the indirect method is applied for preparing the statement of cash flows.

For further details of our responses, please see Appendix 1.

Yours sincerely,

Pernilla Lundqvist
Chairman Accounting Practices Committee

FAR

# Appendix 1

**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?

(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?

***FAR's response***

FAR will not answer this question separately because we think our answers to question 2–14 cover this first question. Therefore, we refer to our answers below. We want to highlight that FAR in general strongly believe that reintroducing amortization of goodwill will be a better way of reflecting goodwill in the financial statements.

**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?

(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).

(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?

(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?

(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?

***FAR's response***

FAR understands that the new disclosure proposals exposed for comments in this DP do not aim at providing enhanced information about the recoverability of the goodwill still recognized on the face of the statement of financial position. Instead, they aim at providing better information about how successful an acquisition has been. Accordingly, these disclosure requirements are disconnected from the presence of amounts of goodwill recognized in the financial statements.

FAR is very doubtful to the suggested disclosures requirements about the subsequent performance of an acquisition. It is hard to see why single business combinations should be monitored to such a great extent. IFRS already today requires detailed quantitative information about segment profit or loss in IFRS 8 and detailed information about certain pro-forma figures related to revenue and profit about acquired businesses under IFRS 3 paragraph B64 (q). FAR believes that the proposed additional requirements about the subsequent performance of an acquisition goes too far. For a large listed company with hundreds of subsidiaries, it is difficult to understand why there should be a disclosure requirement that only focuses on how well a few acquired subsidiaries develops over time while the

majority of subsidiaries, that may represent a substantial part of the performance/profit of the business, is not commented on at all. In addition, there will be no balance between disclosures provided by a company that grow organically and a company that grow through acquisitions in such a case.

FAR is also concerned about the auditability and enforceability of the proposed disclosure requirements. Metrics that will be provided are non-GAAP measures and such information could be difficult to audit. In addition, acquired business may be fully integrated with other businesses and this will potentially make it even more difficult to audit the information.

Several of the suggested disclosures could also be regarded as forecasts or very close to forecasts which could result in companies having to disclose information they consider commercially sensitive. FAR notes that entities seem to be most reluctant to provide commercially sensitive information that is forward looking.

**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?

***FAR's response***

In respect to FAR’s answer to Question 2, FAR disagrees with the Board’s preliminary view and therefore does not support the introduction of the disclosure objectives.

**Question 4**

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

(a) 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

(b) 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?

***FAR's response***

FAR disagrees with the Board's proposals. Our view is that the requirements to disclose when the synergies are expected to be realized, the estimated amount (or range of amounts) of the synergies and the expected range of cost to receive these synergies are very high and it's doubtful that companies monitors and have these detailed calculations of synergies. FAR also questions whether the resulting benefits from disclosure of quantitative amounts of synergies would outweigh the costs.

FAR also thinks there might be issues in auditing these figures related to the verifiability of the disclosed information.

Furthermore, as discussed in question 7, FAR disagrees with the proposal of not reintroducing amortization of goodwill. However, one argument (that is described in the DP) for retaining the impairment-only approach is that the useful life of goodwill cannot be estimated. But for disclosure purposes companies are, based on the Board's preliminary view, required to disclose when the synergies are expected to be realized. We think that if it is possible to estimate when synergies are to be realized, it would also be possible to determine an appropriate useful life of goodwill. We are aware of that goodwill can consist of other than synergies (and the remaining part might not be possible to determine a useful life), but we think that the disclosure of when the synergies are expected to be realized are connected to the useful life of goodwill.

FAR agrees with the Board's preliminary view to specify that liabilities from financing activities and defined benefit pension are major classes of liabilities.

**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?

(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?

IFRS 3 also 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:

- 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.

- 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?

***FAR's response***

FAR agrees with the Board's preliminary view that it should retain the proforma information to the extent it's practical. We think that trend information about the financial performance is relevant for users. FAR thinks it's relevant that companies disclose how they have prepared the pro forma information. However, we do not think the Board should develop guidance for how that information should be prepared.

FAR agrees with the Board's preliminary view that it should develop proposals to replace the term "profit or loss" with the term "operating profit before acquisition-related transaction and integration costs". FAR suggest that the Board provides a definition for the new concepts of "acquisition-related" and "integration cost".

FAR disagrees with the Board's preliminary view 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. FAR questions whether the resulting benefits from disclosure of cash flows would outweigh the costs, especially when the indirect method is applied for preparing the statement of cash flows.

**Question 6**

As discussed in paragraphs 3.2–3.52 of the DP, the IASB 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 IASB'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?

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

(c) Paragraph 3.20 of the DP 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?

(d) Should the IASB 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?

***FAR's response***

a) FAR agrees 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. However as mentioned the timely recognition often fails because the estimates are too optimistic. FAR notes that IAS 36 para 134 (d) (ii) requires a description of management's approach to determining the value(s) assigned to

each key assumption, whether those value(s) reflects past experience or if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information. FAR believes that this disclosure is important to counteract too optimistic estimates. FAR therefore proposes that this requirement could be further developed.

b) Not applicable.

c) FAR agrees that the two main reasons for not recognizing impairment losses on goodwill on a timely basis is that estimates are too optimistic and shielding.

d) FAR has no further proposals.

**Question 7**

Paragraphs 3.86–3.94 summarize 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.)

(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?

(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?

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

(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?

(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?

***FAR's response***

For question 7 FAR thinks that the different questions, a–e, are strongly connected to each other and therefore FAR gives one answer to the whole question, including a–e.

FAR disagrees with the Board's preliminary view to not reintroduce amortization of goodwill. FAR thinks that there are arguments both for and against reintroducing amortization. But based on practice that we have seen the last 15 years in general shows that companies recognize too large amounts to goodwill instead of other intangible assets, companies allocate goodwill to strong cash generating units and we have only seen small numbers of impairment. Companies that allocate goodwill to strong cash

generating units will in many cases lead to no impairment. There is also a huge risk that internally generated goodwill will be indirectly capitalized when companies avoid impairment.

FAR also thinks that goodwill arisen from a business combination is an asset that is “consumed” over time and that it best reflected in the financial statement by making amortization. Amortization is an accounting method that allocate the expenditure as a cost over the period it is consumed. If acquired goodwill is not amortized, it will be replaced by internally generated goodwill. Amortization therefore ensures that the cost of acquired goodwill is recognized in profit or loss and that internally generated goodwill will to a less extent be recognized in the statement of financial position. We cannot see why goodwill should be treated differently compared to other assets. We also note that the members of IASB have different views regarding this.

With that said FARs view is that it is better to reintroduce amortization in combination with an impairment requirement. FAR also think that some limitations need to be regulated related to the useful life. We are aware of the difficulties of predicting useful life of acquired goodwill with a high level of reliability, but this should not hinder reintroduction of goodwill amortization. We believe that reasonable approximations are possible and disclosing information around this would be valuable information for users. More work in this area would of course be needed if amortization is reintroduced, not sure what period that should be maximum but for example 20 years. Otherwise there is a risk that practice will end up with long useful life’s and the problem will be the same as we have today with only impairment.

There might be a risk that new alternative performance measures will be introduced but FARs view is that it is not arguments for not reintroduce amortization. We have for example EBITDA already today.

**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?

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

***FAR's response***

FAR disagrees with the Board’s view that it should develop a proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill. We think that presenting an amount of equity excluding goodwill implies that goodwill is not qualified for being recognised as an asset and therefore should be excluded from equity.

Further, since the IASB has proposed in the Exposure Draft General Presentation and Disclosures to requiring goodwill to be presented as a separate line item on the balance sheet we think that the users of the financial statements will have the possibility to calculate total equity excluding goodwill on their own.

**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?

(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.

(c) In your view, would the proposals make the impairment test significantly less robust (see paragraphs 4.22–4.23)? Why or why not?

***FAR's response***

As indicated above under question 7, FAR is of the view that goodwill amortization should be reintroduced.

FAR believes that the IASB should develop proposals to remove the requirement to perform a quantitative impairment test every year, but only if the IASB also reintroduces amortization of goodwill. In FAR's view, reintroducing goodwill amortization would reduce reliance on the impairment test and justify removing the requirement for an annual impairment test. A combination of reintroducing goodwill amortization and applying an indicator-only approach to impairment testing would have the potential benefit of reducing complexity and it would help to improve consistency within IAS 36 with the accounting treatment of intangible assets with definitive lives, and allow cost savings for preparers by reducing the frequency of the test.

If the IASB decides not to reintroduce amortization of goodwill, FAR is not in favor of removing the requirement to perform a quantitative impairment test every year. Should the IASB adopt an indicator-only approach, removing the requirement to perform an annual quantitative test, the discussed problem of impairment losses on goodwill being recognized too late, long after the events that caused those losses may be accentuated. The problem of management being overoptimistic could be increased as the qualitative assessment of impairment indicators are very subjective in nature. This problem could be further increased as auditors or regulators have no comparison to impairment tests prepared in previous years. The introduction of the impairment-only approach in 2005 has likely resulted in that the impairment test is now performed with more rigor than was the case previously. This could be lost if an indicator-only approach is introduced.

FAR also notes that introducing an indicator-only approach could result in some loss of information that users of financial statements find useful, such as information about the discount rates, long-term growth rates, profit and other key assumptions on which management has based its cash flow projections and sensitivities used in the quantitative impairment test.

In conclusion, FAR has reservations about an indicator-only approach, as it would expose to a risk to an even lower users' reliance on the results of the impairment test. This could potentially accentuate the "too little too late" issue and could result in a further loss of information on governance and management stewardship of capital employed.

FAR

An indicator-only approach (in combination with not reintroducing goodwill amortization) will likely put pressure on the qualitative assessment of the impairment indicators, as it can be expected that auditors or regulators would ask for a strong justification of why there is not an indicator of impairment. Therefore, there is an apparent risk that the cost and complexity of the quantitative assessment would simply shift to the qualitative assessment but overall not be reduced.

If an indicator-only approach was to be introduced, FAR believes that having a robust set of indicators is important. FAR notes that paragraph 12 of IAS 36 already sets out a non-exhaustive list of indicators. In order to strengthen the robustness of the indicator-only approach, FAR would welcome a further review by the IASB of these indicators in order to provide preparers and other stakeholders with improved guidance in this area.

**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 of the DP); 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 of the DP).

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 IASB develop such proposals? Why or why not?

(b) Should the IASB 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.

***FAR's response***

FAR agrees with the 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. FAR believes that the requirement in IAS 36 measuring value based on projections on reasonable and supportable assumptions that represent management´s best estimates could be distorted when the projections must exclude the items mentioned above. Budgeting and business planning are often thoroughly processes taking into consideration a lot of circumstances and are finally approved by management. There is a high risk that excluding vital parts of the plan, such as material investment, could be a hypothetical assignment with lack of reasonable assumptions. FAR therefore believes that the proposal is highly justified.

FAR also agrees with the proposal to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use. FAR believes that even today in practice companies use post-tax cash flows and post-tax discount rates. This is because market discount rates are expressed post-tax and not pre-tax, furthermore the guidance in IAS 36 BCZ85 states that in theory, discounting post-tax cash

flows at a post-tax discount rate and discounting pre-tax cash flows at a pre-tax discount rate should give the same result. In practice therefore impairment test usually is based on post-tax discount rates giving the same result as a pre-tax test.

**Question 11**

Paragraph 4.56 of the DP summarizes the IASB's preliminary view that it should not further simplify the impairment test.

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

(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?

***FAR's response***

FAR appreciates if more guidance could be added on the difference between entity specific inputs used in value in use and market participant input used in fair value less costs of disposal.

FAR does not believe that it would be a simplification to mandating only one method for estimating the recoverable amount, on the contrary it could be the opposite. Depending on the circumstances some companies find it more appropriate to estimate the recoverable amount by fair value less costs of disposal than value in use. Other companies do not find any reliable measure of far value less costs of disposal on their CGUs and therefore estimate the recoverable amount by value in use.

FAR does not believe that goodwill testing on reportable segment or entity level should be allowed unless it is in line with the current requirements in IAS 36 (para 80). The main objection against such a proposal is that it could create shielding.

Identifying CGUs and allocating goodwill to CGUs is a highly complex area and FAR welcomes if more guidance could be added in this area. We think that an appropriate identification of CGUs is very relevant for avoiding shielding-issues in the impairment test of goodwill.

**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?

(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?

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

***FAR's response***

FAR agrees to not develop such a proposal. Even if it sometimes is hard and also costly to identify and measure all identifiable intangible asset FAR thinks that it is relevant information to interested parties. If additional items are added to goodwill, the goodwill figure might become even less understandable than it is today.

Even if it is less important to separate intangible assets from goodwill if amortization will be reintroduced compared to if amortization will not be reintroduced, FAR still believes that it is relevant to separate other intangible assets from goodwill to show what type of assets that is acquired and the useful life for the different assets can differ. If intangible assets will be bundled together with goodwill it may lead to an assumption of longer useful life and a risk that no impairment is needed beside the amortization.

**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?

***FAR's response***

FAR believes that the IASB should take a decision on these matters that should not be affected by discussions of the FASB. The outcome of FASB’s discussions has not influenced our answers and will not change our standpoint in this comment letter.

**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?

***FAR's response***

No, FAR does not have anything else to add than what is already presented above.