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Dear Sirs,

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

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's (IASB) Discussion Paper, "Business Combinations—Disclosures, Goodwill and Impairment" issued in March 2020.

Our process

As part of our due process for this Discussion Paper, we consulted with over 100 stakeholders across Canada, including discussions with our User Advisory Committee, IFRS® Discussion Group and Academic Advisory Committee. In carrying out our outreach and in keeping with our due process, we were pleased to have IASB members join several of our outreach events, which included discussions with broad groups of Canadian users, preparers, and auditors across a variety of industries. We took the results of these discussions into account when developing this letter.

Our view

We commend the IASB for its work on *Business Combinations—Disclosures, Goodwill and Impairment* to improve the accounting for goodwill and to enhance the relevance of information about acquisitions included in the financial statements. We also commend the IASB in its efforts to introduce simplifications to the current accounting for goodwill impairments, thus easing the reporting burden on preparers. We think that this Discussion Paper is responsive to strong demand from users for improved information about acquisitions given that current financial statement disclosures do not provide them with sufficient information to assess the performance of acquired businesses and to effectively hold management accountable for their investment decisions.

While we are supportive of the IASB's objectives in developing the Discussion Paper, we encourage the IASB to consider areas where additional guidance is needed to address possible application challenges that may arise, should it decide to advance the proposals in the Discussion Paper. Our suggestions are made in order to strike an appropriate balance between users' needs for better information about acquisitions, the effort and level of professional judgment required of preparers to generate that information, and the interaction of the proposals as a package of views.

Furthermore, we think that it is essential that consistency is maintained between IFRS Standards and U.S. GAAP. Many Canadian entities applying IFRS Standards have U.S. operations, compete with U.S. companies, raise capital in the U.S. public markets and/or are dual listed on a U.S. securities exchange. Therefore, we think that having accounting frameworks that are largely consistent results in increased efficiency in capital markets and ensures that users receive relevant and comparable information when assessing entities applying either IFRS Standards or U.S. GAAP.

Disclosure proposals

We are supportive of the IASB's efforts to improve disclosure about the subsequent performance of an acquisition. We agree that such information will be useful to users in assessing business acquisitions and management's stewardship and that it will enhance the relevance of the financial statements.

We also agree that an entity should provide disclosures about acquisitions based on the information reviewed by its Chief Operating Decision Maker (CODM). It is our understanding that the CODM usually monitors all acquisitions that are material to the business. As such, we think that this approach will ensure that disclosure is provided for strategically significant acquisitions that materially impact an entity's future operations regardless of their cost. With that said, during our outreach, several preparers told us that many acquisitions are rapidly integrated into the existing business, making monitoring at the level of the acquired entity challenging. We also understand that, when integrated businesses are monitored internally, they are often measured as a single unit including all or part(s) of the existing operations. Based on our outreach with users, the metrics used to monitor extensively integrated acquisitions are still relevant and useful in understanding how management monitors these acquisitions. Consequently, we think that management's ability to provide users with metrics based on information used to monitor acquisitions internally should not be constrained by the acquired business being extensively integrated into the acquirer's existing business. Therefore, we encourage the IASB to require disclosure of information used by an entity's CODM to monitor the performance of an acquisition, even if the metric employed can only be determined at a level higher than the acquired entity.

The post-acquisition accounting for goodwill

Overall, we think that there is merit to both an amortization and impairment approach and an impairment only approach. However, we think that it is essential that consistency is maintained between IFRS Standards and U.S. GAAP in relation to whether goodwill is subject to amortization. Therefore, we encourage the IASB and the FASB to communicate with one another when exploring improvements to the accounting for goodwill and whether the reintroduction of the amortization of goodwill is warranted.

While we see merit to introducing an indicator only approach to impairment testing, we think that additional guidance needs to be developed to ensure a robust impairment indicator assessment is performed. We also think that if the indicator assessment is performed as intended, it should ensure timely impairments while still providing cost savings from not having to perform a quantitative annual impairment test. Alternatively, if the IASB chooses to retain the current quantitative annual impairment test requirement, we recommend that the IASB refine the exception provided in IAS 36.99 to better clarify when relief from the quantitative annual

impairment test is permitted. Specifically, we think that terms such as 'substantial margin' and 'remote' are unclear and that clarifying the meaning of such terms may increase the frequency at which paragraph IAS 36.99 is applied.

In addition, we also think that the IASB should further investigate whether it is feasible to refine the level at which goodwill is tested for impairment to allow for greater precision in the goodwill impairment test. We think that the current provision limiting the testing of goodwill to a cash generating unit no larger than an operation segment is too high, potentially resulting in goodwill being shielded from impairment. We therefore recommend that further consideration be given to providing more guidance on allocating goodwill at a lower level than an operating segment to prevent untimely and shielded impairment losses.

Finally, we are supportive of the proposals to simplify the application of the value in use (VIU) approach by aligning the assumptions in the VIU calculation with those used by entities when preparing forecasts for internal reporting purposes. Therefore, we support the proposal to remove the restriction that prohibits entities from including cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance. We also agree with the proposal to remove the requirement to use pre-tax inputs and pre-tax discount rates to calculate value in use. In practice converting a post-tax discount rate to a pre-tax discount rate is mechanical and does not provide users with useful information. The calculation itself is also time consuming and requires an iterative calculation to unwind the timing of deferred taxes.

Our responses to your questions

The Appendix to this letter responds to the questions posed in the **Discussion Paper** and expands on the points raised above.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Kelly Khalilieh, Director, Accounting Standards (+1 416 204-3453 or email kkhalilieh@acsbcanada.ca) or Jayshal Daya, Principal, Accounting Standards (+1 416 204-3501 or email jrdaya@acsbcanada.ca).

Yours truly,

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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time

Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS® Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS Standards

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

APPENDIX

Section 1 – Introduction

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?

1. We support the objective of the project to investigate whether companies can feasibly provide investors with more useful information about the businesses they have acquired. Based on our outreach with users, we understand that current financial statement disclosures do not provide them with sufficient information to assess the performance of acquired businesses and to effectively hold management accountable for their investment decisions.

2. We agree with the IASB that these proposals should be considered as a package, given their interaction with one another. Furthermore, we think that the overall package should be assessed on its ability to provide users with better information. In expressing our views on the various proposals, we considered the interaction of the proposals with one another and whether the overall package achieves the objective of providing users with better information. With that said, our views may change should different proposals be advanced or should the FASB amend U.S. GAAP to be inconsistent with IFRS Standards in relation to this topic. For example, if the IASB were to expand the range of intangible assets recognized within goodwill, this may result in us expressing stronger support for reintroducing the amortization of goodwill because goodwill may then include a greater proportion of intangible assets that are consumed over time. Furthermore, if more intangible assets are subsumed into goodwill, we may recommend more comprehensive disclosures about the composition of goodwill so users can better understand what is included in the balance.

Section 2 – Improving disclosures about acquisitions

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?

Disclosure proposals

3. We support the IASB's efforts to improve disclosure about the subsequent performance of an acquisition. We agree that such information will be helpful to users in assessing business acquisitions and management's stewardship and that it will enhance the relevance of the financial statements. We think that this is particularly important given the increasingly intangible nature of entities within many industries and the proliferation of goodwill and intangible assets relative to the total assets recognized in a business combination.

4. The users that we consulted told us that there is insufficient information presented in the financial statements to assess the subsequent performance of an acquired business. These users shared that this makes it challenging for them to assess how an acquired business has performed post-combination when compared to management's pre-combination expectations. Furthermore, this also limits users' ability to assess management's stewardship. Therefore, we agree with the proposed disclosures about acquisitions and think that these proposals will be helpful in addressing identified disclosure shortcomings.

5. During our outreach, several preparers told us that many acquisitions are rapidly integrated into the existing business, making monitoring at the level of the acquired business challenging. These challenges may include isolating metrics specific to the acquisition when these metrics are monitored at an aggregated level. It is our understanding that, when highly integrated businesses are monitored internally, they are often monitored as a single unit including all or part(s) of the existing operations. With that said, during our outreach with users, they shared that metrics used to measure extensively integrated acquisitions are still relevant and useful in understanding how management monitors these acquisitions. Consequently, we think that management's ability to provide users with metrics based on information used to monitor acquisitions internally should not be constrained by the acquired business being extensively integrated into the acquirer's existing business(es). Therefore, we encourage the IASB to require disclosure of information used by an entity's CODM to monitor the performance of an acquisition, even if the metric employed can only be determined at a level higher than the acquired entity.

6. We agree that the metrics reported at the CODM level are particularly important to users because these metrics provide insights into management's monitoring activities. However, based on our outreach, it is our understanding that the metrics used to monitor acquisitions are often non-GAAP metrics. Therefore, we think that further consideration should be given to how these metrics will interact with the *management performance measures,* as defined in the Exposure Draft, *General Presentation and Disclosures* (Exposure Draft), and how the guidance in that Exposure Draft can be used to make these metrics more useful. Specifically, we think that one of the most fundamental characteristics of useful information is relevance. Therefore, we encourage the IASB to include guidance that requires entities to consider relevance as well as the enhancing characteristics of useful financial information, such as comparability and consistency, in identifying and disclosing relevant metrics about the performance of an acquisition in the post-combination period.

7. We agree that the metrics reported about the performance of an acquired business in the post-combination period should be defined by management rather than specified by IFRS Standards because we think they better align with the reasons for which management completed the acquisition. We also agree that any changes to the metrics management uses to monitor the performance of an acquisition should be explained through disclosure, consistent with the rationale provided in paragraph 2.21 of the Discussion Paper.

8. In addition, the preparers and practitioners we consulted were concerned about the auditability of management's expectations, given the estimation uncertainty in determining these metrics. We think that estimation uncertainty should not limit useful information from being provided to users. Therefore, we think that the IASB may consider explicitly requiring companies to disclose the assumptions and judgements applied by management when determining these metrics to allow users to better understand how these metrics are derived.

9. Finally, users also told us that disclosures indicating no monitoring of the acquired business is taking place are useful in informing users with regards to management's stewardship. Therefore, we also support the proposals for companies to disclose when management ceases to monitor or does not monitor an acquisition and for management to explain why it does not do so.

Disclosure period

10. We agree that disclosures of performance metrics should be provided for at least the first two years following the acquisition because we think that a shorter period would not provide users with an ability to assess the return from the investment. Therefore, we think that two years achieves a reasonable compromise, while still ensuring useful information is provided to users.

Providing information based on what the entity's CODM reviews

11. We agree that an entity should provide disclosures about acquisitions based on the information reviewed by an entity's CODM and taking this approach would be largely consistent with requirements already in place under IFRS 8. It is our understanding that the CODM usually monitors all acquisitions that are material to the business. As such, we think that this approach will ensure that disclosure is provided for strategically significant acquisitions that are expected to materially impact an entity's future operations regardless of their cost.

12. We also think that this approach will achieve an appropriate balance in relation to the acquisitions being scoped in for disclosure, while not creating a significant burden on preparers. It is our understanding that the burden of this disclosure will be minimal given that it will be prepared using information already being used by management for internal reporting and monitoring purposes. Moreover, the users we consulted told us that the information used to internally monitor an acquisition provides insight into the metrics employed by management to assess the performance of an acquisition and that this information is also helpful in assessing management's stewardship. Should the IASB choose to take this approach, we would advise that steps be taken to ensure that no conflict is created with existing requirements of or wording within IFRS 8.

Commercial sensitivity

13. Some preparers we consulted expressed concerns that the proposed disclosures may reveal details from their deal model that may compromise their competitiveness by revealing their bidding strategies when pursuing future acquisitions. These preparers also told us that the disclosure of these internal metrics may provide competitors with insight into the entity's competitive strategies.

14. Currently, no other IFRS Standards provides an exception for disclosing commercially sensitive information, other than IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which provides an exception for disclosing information that is expected to prejudice seriously the position of an entity in a dispute[1].

15. We think that the concerns about commercial sensitivities could be mitigated by management's use of judgement to provide sufficient disclosure to achieve the objectives of the requirements without needing to disclose detailed specifics that may compromise their competitiveness. Therefore, we encourage the IASB to develop guidance or illustrative examples to help preparers navigate these disclosure requirements and provide useful, entity-specific information, that does not compromise commercial competitiveness.

Jurisdictional limitations and forward-looking information

16. We think that given the possible inclusion of non-GAAP metrics in the proposed disclosures, the IASB should carefully consider the interaction with securities law and *management performance measures* as defined in the Exposure Draft, *General Presentation and Disclosures*. We also understand that some stakeholders are concerned that the proposed disclosures may require forecast information, which may be subject to securities law. While the proposed disclosures may be considered directional in nature, we think that careful consideration is required to ensure that these forward-looking metrics do not conflict with securities law.

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

[1] IAS 37.92

- 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?

17. We agree with the IASB's preliminary view to introduce the disclosure objectives within the amended standards because we think this will help preparers to better understand the purpose of the disclosure requirements, prevent boilerplate disclosures, and facilitate the development of disclosures that provide users with useful information about acquisitions.

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?

Expected synergies

18. We are supportive of the IASB's efforts to improve disclosures about acquisitions by requiring entities to provide information about expected synergies. The users that we consulted were mostly supportive of the disclosure proposals because they think that information provided on cost and revenue synergies is helpful in assessing the consideration paid to acquire a business and for assessing its subsequent performance.
19. With that said, while we agree that this information will be useful to users, we think that various practical application issues need to also be considered. The ability to reliably measure the expected synergies with sufficient precision and clarity may be influenced by the extent of judgement and estimation uncertainty required. Therefore, we think that the IASB should consider requiring companies to disclose the assumptions and judgments used to determine estimated synergies and to allow users to understand how the estimated synergies were derived. We also think that the IASB may consider providing an example illustrating the types of synergies an entity may expect to generate in the post-combination period and disclosure of the assumptions and judgments made by management when assessing the synergies related to the acquired business.

Materiality threshold

20. We do not agree with the materiality threshold specified in paragraph 2.65 of the Discussion Paper that requires "companies to provide detailed information for all acquisitions with material expected synergies". We think that the concept of material synergies in the context of an individual acquisition may create a disclosure burden for entities that either perform multiple acquisitions each year, or those that acquire businesses that are immaterial to their overall operations. Moreover, the costs to prepare disclosures that are not material to the overall company may exceed the benefits of providing such information to users. Therefore, we think that such disclosures should be limited to acquisitions monitored by the CODM and to acquisitions where the synergies are material in relation to the entity's consolidated financial statements.

Liabilities arising from financing activities and defined benefit pension liabilities

21. We agree with the proposal to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities for the reasons specified in paragraph 2.69 of the Discussion Paper.

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.

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

Pro forma information

22. We agree that disclosing pro forma revenue and profit or loss of the combined entity for the current reporting period as if the acquisition had taken place at the beginning of the annual reporting period is useful. Overall, we think this information provides users with an understanding of the full year potential impact of an acquisition and helps them to forecast future results.

23. We think that the IASB should not develop guidance for entities on how to prepare pro forma information, as this could reduce the flexibility for an entity to tailor such information to its facts and circumstances and to therefore provide users with more useful information. However, we think that the IASB should require entities to disclose how they have prepared pro forma information to allow users to understand the estimates and judgements used when generating this information.

Replace *'profit or loss'* with *'operating profit before acquisition-related transaction and integration costs'*

24. We agree with replacing 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. We think that this change will provide users with useful information about the operating performance of the core operating activities of the acquired business since the acquisition date, independent of how the acquired business is financed and how finance costs and tax expenses have been allocated between the integrated acquired business and the existing business. However, we encourage the IASB to define the term "integration costs" and to provide application guidance on the types of costs that may qualify as "integration costs". Without this guidance, we think that application challenges and diversity in practice will arise when determining which costs that qualify for inclusion in this measure.

Cash flows from operating activities

25. We agree with the proposal to require entities to disclose cash flows from operating activities of an acquired business after the acquisition date, and of the combined business on a pro forma basis for the current reporting period, for the reasons provided in paragraph 2.81 of the Discussion Paper.

Section 3 – Goodwill impairment and amortization

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?

(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?

(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?

(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?

26. Other than refining the level at which goodwill is tested for impairment, we agree that it is not feasible to design an impairment test that is significantly more effective and that will result in the more-timely recognition of impairment losses on goodwill at a reasonable cost. Alternative approaches, such as the headroom approach and those that may require the componentization of goodwill will be extremely challenging to apply and may lead to diversity in practice.

27. However, we think that the IASB should further investigate whether it is feasible to refine the level at which goodwill is tested for impairment to allow for greater precision under the existing goodwill impairment testing methods. We think that the current provision limiting the testing of goodwill to a cash generating unit no larger than an operating segment is too high. Thus, potentially resulting in goodwill being shielded from impairment. We therefore recommend that further consideration be given to providing more guidance on allocating goodwill at a lower level than an operating segment to prevent untimely and shielded impairment losses.

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?

(e) 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?

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

(g) 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?

(h) If you favour reintroducing amortisation of goodwill, how should the useful life of goodwill and its amortisation pattern be determined? In your view how would this contribute to making the information more useful to investors?

28. Overall, we think that there is merit to both an amortization and impairment approach and an impairment only approach. However, we think that it is essential that consistency is maintained between IFRS Standards and U.S. GAAP in relation to whether goodwill is subject to amortization. Many Canadian entities applying IFRS Standards have U.S. operations, raise capital in the U.S. public markets, and/or compete with U.S. companies. Therefore, we encourage the IASB and the FASB to communicate with one another when exploring improvements to the accounting for goodwill and whether the reintroduction of the amortization of goodwill is warranted.

Amortization approach

29. Overall, we think that the amortization and impairment of goodwill approach is part of a practical and feasible solution to address the *too little too late* and shielding concerns associated with the impairment only approach. Furthermore, some users that we consulted held the view that goodwill reflects consideration paid for future profitability; therefore, an amortization charge is needed to reflect the associated charge for generating future income or cost savings.

30. Most users that we consulted were supportive of an amortization and impairment approach, provided the amortization of goodwill is presented separately from the amortization associated with other long-lived assets. Furthermore, several other stakeholders told us that they think goodwill is a wasting asset with minimal relevance to users.

31. We think that if the IASB decides to permit or require the amortization of goodwill, the period over which goodwill is amortized should be based on assumptions specific to the composition of the goodwill and its anticipated consumption. Furthermore, we think that there is information value in the amortization period if it is based on assumptions specific to the underlying asset and its consumption. Such an amortization

period communicates management's best estimate of the expected period over which the benefits are to be realized from an acquisition.

32. Finally, we think that it would be best to keep the amortization approach simple by not requiring goodwill to be componentized. The componentization of goodwill would require significant judgement and subjectivity and we understand, based on our discussions with users, that the benefits derived from more accurate amortization of goodwill through componentization would be limited.

Impairment only approach

33. We also think that there is merit to the impairment only approach, with some of our stakeholders indicating that goodwill has components, such as an entity's reputation, that is not consumed over time and therefore it should not be amortized. These stakeholders also think that goodwill can be diminished by factors, such as technological advancements or negative findings on the products produced, which does not usually occur consistently over time. Furthermore, some stakeholders also noted that the amortization of goodwill would create an inconsistency with the current accounting for indefinite lived intangible assets, which are not subject to amortization.

34. Based on feedback received during our outreach with users, we understand that amortization and impairment losses represent non-cash items that are usually reversed when evaluating an entity's results. Therefore, if amortization is likely to be reversed it may not justify a change in the current accounting for goodwill.

35. Finally, during our outreach, some users told us that the amortization approach would not hold management accountable for earning a return on the invested capital if it is arbitrarily written off over a short period of time. Furthermore, some users also told us that impairment write downs allow users the opportunity to revise expectations about future cash flows and profits, therefore being useful in understanding the implications of management's past decision making.

Acquired goodwill is distinct from goodwill subsequently generated internally

36. We think that acquired goodwill is distinct from goodwill that is internally generated by a cash-generating unit, because unlike acquired goodwill, it is challenging to accurately distinguish, value and isolate internally generated goodwill from the business's ongoing operations. It is our understanding that indirectly permitting the acquired goodwill to be replaced by internally generated goodwill reduces the comparability across businesses.

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?

37. We think that this subtotal can be calculated with minimal effort if the IASB advances its proposal in the Exposure Draft, *General Presentation and Disclosures* to require goodwill to be separately presented on the balance sheet. Therefore, we do not agree with the proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill.

38. We also think that the separate presentation of this subtotal may also unintentionally bring into question whether goodwill is an asset, because it would draw special attention to goodwill exclusive of other assets presented on the statement of financial position. Furthermore, based on our outreach with users, we understand that they hold management accountable for generating a return on all assets acquired, including goodwill.

39. We therefore think the separate presentation of goodwill under non-current assets is appropriate and no further enhancements to distinguish this balance from other assets in the balance sheet is required.

Section 4 – Simplifying the impairment test

Question 9

Paragraphs 4.32–4.34 summarise 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?

40. While we see merit to introducing an indicator only approach, we think that additional guidance should be developed to ensure a more robust impairment indicator assessment is performed. Further, we think that additional guidance may also help reduce the risk of management optimism being reflected in the impairment indicator assessment.

41. We think that if the indicator test is performed as intended, it will result in timely recognition of impairments while still providing cost savings to preparers from not having to perform an annual quantitative impairment test. Further, it is our understanding that the qualitative impairment test or 'Step 0' in U.S. GAAP is working as intended and has not resulted in less timely recognition of impairments.

Therefore, we think that an indicator only approach may work, if sufficient guidance is provided (similar to that of U.S. GAAP) to help preparers assess when indicators of impairment may exist.

42. Based on our outreach with users, it is our understanding that the disclosures specified in IAS 36.134 that accompany the quantitative annual impairment test are useful to users. This information provides users with transparency into management's outlook for the business and is used to benchmark against users' own assumptions about the performance of a business. Therefore, we think that the IASB should further explore whether this information should continue to be disclosed on an annual basis, irrespective of whether an annual quantitative impairment test is performed.

Cost reductions

43. We think that there may be cost savings under an indicator only approach. For example, audit fees may be reduced should auditors incur less time to audit the management's annual quantitative impairment test and the reasonability of its assumptions. Furthermore, both management and the auditors may not need to engage valuation experts to perform or assess the inputs and application of the annual quantitative impairment test.

Retaining the annual quantitative impairment test

44. Notwithstanding our comments above, we also see merit to the arguments from stakeholders in support of retaining the requirement for entities to perform an annual quantitative goodwill impairment test, that we think should be carefully considered. Some practitioners told us that the annual quantitative impairment test introduces more rigor into management's processes because of the controls built around this process, thus, leading to a more robust impairment test.

45. During our outreach some preparers told us that their corporate finance staff may perform the calculations used in a quantitative impairment test anyway for internal reporting purposes and that the audit costs may be less if audited annually rather than only when there is an impairment indicator present. This is because the auditors would only need to assess the incremental year over year changes to the quantitative impairment calculation.

IAS 36.99

46. If the IASB chooses to retain the current quantitative annual impairment test requirement, we recommend that the IASB consider refining the exception provided in IAS 36.99 to better clarify when relief from the quantitative annual impairment test is permitted. The preparers and practitioners we consulted told us that they find it challenging to determine when paragraph 99 of IAS 36 would apply. For example, these stakeholders shared that it is unclear what is meant by the term 'substantial margin' when assessing whether they may rely on a past impairment test. Furthermore, these preparers and practitioners also think it is challenging to assess when the likelihood of the current recoverable amount being less than the current carrying amount of the unit is remote. This is because currently there is no guidance to help preparers and practitioners understand what should reasonably be accepted as a 'substantial margin' or

'remote'. Therefore, if this guidance is to be retained, we encourage the IASB to clarify the meaning of these terms either by defining them or providing qualitative criteria or examples illustrating the application of these principles.

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? (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.

Simplifications to the value in use impairment test

47. We support the proposal to remove the restriction that prohibits entities from including cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance. We think that this proposal will facilitate easier application of the value in use (VIU) approach by aligning the assumptions in the VIU calculations with those used by entities when preparing forecasts for internal reporting purposes.

Post-tax cash flows and post-tax discount rates

48. We agree with the proposal to remove the requirement to use pre-tax inputs and pre-tax discount rates to calculate value in use. In practice converting a post-tax discount rate to a pre-tax discount rate is mechanical and does not provide users with useful information. The calculation itself is time consuming and requires an iterative calculation to unwind the timing of deferred taxes. It is our understanding that users evaluate returns on investments on a post-tax basis, therefore calculating and disclosing a pre-tax discount rate does not provide users with useful information. Notwithstanding this simplification, the IASB should also consider introducing guidance or illustrative examples to ensure consistent treatment of tax

cash flows and existing temporary differences, loss carryforwards and the associated deferred tax amounts..

Introducing additional discipline in estimating cash flows

49. We agree that the current guidance provides sufficient discipline in estimating cash flows based on the rationale provided in paragraph 4.41 of the Discussion Paper.

Question 11
Paragraph 4.56 summarises the Board's preliminary view that it should not further simplify the impairment test. (a) Should the Board develop any of the simplifications summarised 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?

50. We agree with the IASB's preliminary view not to develop any of the simplifications summarized in paragraph 4.55 for the reasons provided in paragraph 4.56 in the Discussion Paper. Other than the recommendations previously mentioned, we are not aware of any other simplifications that would reduce costs to preparers, while continuing to provide useful information to financial statement users.

Section 5 – Intangible assets

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 amortisation of goodwill were to be reintroduced? Why or why not?

51. We agree that the IASB should not develop proposals to allow some intangible assets to be included in goodwill. Based on our outreach with users, we understand that keeping intangible assets separate helps users to better understand their cash generating potential.

52. Alternatively, we think that the IASB should explore the possibility of expanding the range of intangible assets that can be recognized separately from goodwill. Furthermore, we think that this will provide users with more insight into the range of intangible assets currently included within goodwill. During our outreach, users told us that the quantitative information associated with these intangible assets provide them with greater insight into the cash generating potential of these intangible assets. We think that intangible assets such as an assembled workforce are valued by management as part of their deal due diligence procedures and therefore, will not result in an additional cost to management to value these intangible assets. Moreover, we also think that the expansion of the range of intangible assets recognized outside of goodwill may also help mitigate the *too little too late* concern by reducing the goodwill balance and allowing for a more accurate allocation of intangible assets to the cash generating unit(s).

53. Our view does not change if the amortization of goodwill were to be reintroduced. We think that for the reasons noted above it would still be useful to keep these intangible assets separate from goodwill, even if amortization of goodwill were to be reintroduced.

Section 6 – Other recent publications

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 amortise goodwill. Paragraphs 6.2–6.13 summarise 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?

54. We consider it essential that the two frameworks remain largely consistent. Many Canadian entities applying IFRS Standards have U.S. operations, raise capital in the U.S. public markets, and/or compete with U.S. companies. Therefore, we think that having accounting frameworks that are largely consistent results in increased efficiency in capital markets and ensures that users receive relevant and comparable information when assessing entities applying either IFRS Standards or U.S. GAAP.

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?

55. For the reasons cited in this response letter, we support the objective of the project to investigate whether entities can provide investors with more useful information about the businesses they acquire. Other than what was previously mentioned, we do not have any other comments.