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18 December 2020

Dear IASB members,

Invitation to comment – Discussion Paper DP/2020/1 – *Business Combinations – Disclosures, Goodwill and Impairment*

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on Discussion Paper DP/2020/1 – *Business Combinations – Disclosures, Goodwill and Impairment* (the DP) from the International Accounting Standards Board (IASB or Board).

Generally, we agree that the issues raised for discussion in the DP do require further consideration. However, we note that the DP is attempting to address two quite different concepts. Firstly, the DP proposes disclosures to provide more information about the success of a business combination post-acquisition through additional disclosure requirements. Secondly, it proposes to address the subsequent accounting of acquired goodwill (hereafter referred to as 'goodwill' only). The impairment guidance in IFRS was never designed to assess the success of a business combination, although the wording in the DP leads the reader to consider that the goodwill impairment test is deficient, because it is unable to indicate the degree of success of a business combination. Consequently, we believe that the initial recognition of goodwill, and whether goodwill should be subsequently impaired or amortised, as well as any debate over the shortcomings in the impairment test per IAS 36 *Impairment of Assets*, should be decoupled from the proposals to improve post-acquisition disclosures for business combinations, and they should be dealt with as separate projects.

We support the concept of improving disclosures for business combinations post-acquisition, and we believe that the information would be useful to investors, and our understanding of the DP is that only information which is already internally available and used for monitoring the success of an acquisition needs to be disclosed. We would, however, strongly encourage the Board to undertake some field testing and further outreach with preparers and users/stakeholders to assess what information about post-acquisition business combinations is already being gathered by the management of companies, whether the information can be practically provided in the manner proposed, and whether it adds the expected value, before any further decisions are made on the proposed disclosures.

We recognise that there are conceptual and practical arguments for both amortisation and impairment-only models for goodwill and we also recognise that, even if the Board elects to reintroduce amortisation of goodwill, companies will still have to perform an impairment assessment. If the Board

elects to keep the impairment-only model, we believe that the pressure on the impairment test would be at least the same as it is currently.

We believe that in response to the concerns raised by constituents about the shielding effect, the Board could consider to improve the existing impairment model in IAS 36 by changing the requirements and/or providing further guidance as to the level at which goodwill is allocated and tested in accordance with IAS 36.80 (possibly clarifying that the expectation is for goodwill to be tested at a level below the operating segment level).

We conditionally support the concept of an indicator-based impairment test, as proposed by the DP, rather than a mandatory annual test. However, we note that this concept would increase the pressure on the impairment indicators.

Our detailed responses to the questions are set out in the Appendix to this letter.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas on +44 20 7951 3152.

Yours faithfully

Ernst & Young Global Limited

Appendix - Responses to specific questions

Question 1

Paragraph 1.7 summarises the objective of the Board's research project. Paragraph IN9 summarises 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 amortisation of goodwill? Which of your answers depend on other answers and why?

In addition to the comments we have raised in our cover letter, we provide detailed responses to the Board's proposals in our answers to the specific questions below.

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?

We support the concept of improving disclosures for business combinations post-acquisition, based on the information that is used internally to monitor an acquisition by the CODM. The DP states in paragraph 2.37, that the role of the CODM is 'likely to include monitoring the performance of acquisitions', as part of the task of monitoring of segments as described in IFRS 8 *Operating Segments*. Our understanding of the DP is that only information which is already internally available and used for monitoring the success of an acquisition needs to be disclosed. We believe that it is critical that this concept is sufficiently clear to readers of the DP, as some of the proposals may be understood to require the collection of additional information.

We would strongly encourage the Board to undertake some field testing and further outreach with preparers and users/stakeholders to assess what information about post-acquisition business combinations is already being gathered by management of companies, whether the information can be practically provided in the manner proposed, and whether it adds the expected value, before any further decisions are made on the proposed disclosures. This field testing and outreach would be valuable in informing the Board, as to what information is indeed already collected internally.

We agree that there may be drawbacks to using the CODM approach, as noted in paragraph 2.39 of the DP, such that investors may not receive information on material acquisitions if they are not monitored by the CODM; for example, in a large group of companies where even very material

acquisitions might be only monitored at a segment or divisional level rather than at the CODM level. Hence, the Board should consider whether the lack of disclosures relating to such material acquisitions would limit the usefulness of the information provided and whether materiality of the acquisition might be the better criterion to determine the disclosure requirements.

We believe the challenge the Board faces is to ensure that the information that is disclosed is useful, understandable, relevant and not boilerplate in nature. We also believe that it is critical that the companies clearly disclose their definitions of their respective acquisition-related key performance indicators (KPIs), because the requirements that the Board has proposed in respect of Management Performance Measures (MPMs) may also be required for acquisition-related KPIs accordingly. We share the concerns of the Board that issues such as commercial sensitivity may impact the quality of the information.

The DP is not prescriptive about where the information should be disclosed. We believe that the nature of the information should drive where it is disclosed. The Board may consider a split in the disclosure requirements of post-acquisition information such that related financial information is disclosed in the financial statements (where it would be subject to audit), and related non-financial information is disclosed in the management commentary section (where, depending on jurisdictional requirements, there may or not be another level of external assurance required).

As we state in our cover letter, we believe that the proposals to improve disclosures for business combinations post-acquisition should be decoupled from the debate over the subsequent accounting for goodwill, and to this end, the disclosure proposals could be considered within the remit of the Board's current project on *Management Commentary*.

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?

Please refer to our response to question 2 above. We have no further views to add here.

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 realised;

- ○ 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?

We agree that disclosure of synergies would be useful information for stakeholders. However, paragraph 2.65 of the DP suggests that this proposal is for all transactions with 'material' synergies, and not only those transactions that the CODM monitors. Therefore, we are not clear why this disclosure objective is separate from the disclosures proposed under questions 2 and 3 above. It would be reasonable to expect that synergies would be monitored by the CODM. If the Board reconsiders the criterion for which business acquisitions require disclosures on their performance (see our response to Question 2), the level for which disclosure of synergies might also be adjusted to be consistent with those proposals. However, where synergies are not considered and monitored, we believe that they should not be developed solely to satisfy the new disclosure requirements. The field testing we have suggested above would help the Board assess current practice and potential solutions in this area as well.

Additionally, we support disclosing liabilities arising from financing activities and defined benefit pension liabilities separately, for each acquisition when material. However, we are not sure why these items have been specifically identified for separate disclosure, as we believe that existing IFRS guidance (such as in IFRS 3 *Business Combinations*, IAS 7 *Statement of Cash Flows* and IAS 19 *Employee Benefits*) already encourages companies to disclose all material balances.

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 proforma 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?

We support the Board's proposal to retain the requirement to provide pro-forma information in the year of acquisition, as stated in paragraph 2.87 of the DP. Entities have been providing pro-forma information under IFRS 3 for some time, and we do not see a reason for that to change. However, there is a degree of diversity in the way pro-forma information is prepared in practice, since there is no specific guidance currently in IFRS on this area. Therefore, we believe that further guidance on the basis of preparing the pro-forma adjustments and significant pro-forma adjustments themselves would be helpful to reduce that diversity and to ensure that comparable, useful and relevant information is provided. This could be another area included in the field testing that we recommend in our response to question 2.

If the term 'profit or loss' is to be replaced with 'operating profit before acquisition-related transaction and integration costs', we would suggest that this new term is properly defined, so that entities understand what information to provide, together with the reasons for this, to try to avoid the risk of diversity in practice that may arise through different interpretations of acquisition-related transaction and integration costs.

We support the proposal in paragraph 2.77(b) to disclose cash flow information to investors, as such information is useful to them. However, we do not understand why the proposal only requires disclosure of cash flows from operating activities, and not cash flows from investing (to understand the capital expenditures) and financing activities, which would also be useful to investors.

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 recognising 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 recognised 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?

We understand that the Board has explored several different ways to make the impairment test for cash generating units (CGUs) containing goodwill more effective at recognising goodwill impairment on a timely basis. In line with the Board's view, we are also not convinced that this would be feasible. As mentioned elsewhere in this comment letter, we believe that the impairment test is not designed to provide information about the success of an acquisition, but represents a recoverability test of the goodwill and the related assets.

It is difficult, arguably virtually impossible, to adequately test the success of a business combination by the current (or any other) impairment test, because the acquired business is typically integrated, or otherwise absorbed, into the existing wider business and, therefore, no longer exists in its original form. Additionally, it is inherently impossible to compare the success of the company, when it had not entered into the respective business combination, with the actual situation.

As a result, we believe it would be preferable for the Board to deal with improving the impairment test per IAS 36 as a separate project, which could also be extended to include impairment testing of other intangible assets with the objective only to have an appropriate and robust recoverability test.

We believe that in response to the concerns raised by constituents about the shielding effect, the Board may consider changing the existing impairment model in IAS 36 to provide further guidance as to the level at which goodwill is allocated and tested in accordance with IAS 36.80 (possibly clarifying that the expectation is for goodwill to be tested at a level below the operating segment level), which would reduce shielding to a certain extent and would reduce the judgment currently seen in allocating goodwill to CGUs. The Board could consider, for example:

- Replacing the concept of monitoring of goodwill with monitoring the related acquired business(es), according to the respective acquisition-related KPIs that management has defined (as discussed above in response question 2), and its expectation of the performance of the acquisition.
- It would also be worth reconsidering if the use of the term 'monitoring' is clear enough to ensure consistent application. We note that in IFRS 8, there is more specific guidance on the purpose for which the CODM reviews financial information, and this may be more useful to preparers and stakeholders/investors, if included here too.
- Requiring improved disclosures of estimates used to measure recoverable amounts of CGUs containing goodwill.

We believe it may be worthwhile for the Board to conduct further research into whether more useful information could be provided by listed companies, for example, providing quantitative and/or qualitative disclosures about the relationship between their market capitalisation (based on the listed share price) and the sum of the recoverable amounts of their CGUs, especially in situations when the market capitalisation is below the book value of equity. This may help in addressing the perceived exposure to potential management optimism as mentioned in the DP, or at least make the assessment thereof more transparent. We realise that while such a requirement would introduce some additional complexities, it would be worth investigating.

Question 7

Paragraphs 3.86–3.94 summarise the reasons for the Board's preliminary view that it should not reintroduce amortisation 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 amortisation of goodwill? Why or why not? (If the Board were to reintroduce amortisation, companies would still need to test whether goodwill is impaired.)

(b) Has your view on amortisation 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 amortisation resolve the main reasons for the concerns that companies do not recognise 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 amortisation 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 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?

There are conceptual and practical arguments for both amortisation and impairment-only models for goodwill and we appreciate both points of view. We note that, even if the Board elects to reintroduce amortisation of goodwill, companies will still have to perform an impairment assessment. If the Board elects to retain the impairment-only model, we believe that the pressure on the impairment test would be at least the same as it is currently. Please refer to question 6 for our comments on the current impairment model.

We believe that reintroducing amortisation of goodwill, whilst more practical, is unlikely to have a significant impact on the recognition of impairment of goodwill in a timely manner. As noted in our response to question 6, the current impairment test is only able to address whether a chosen set of assets and liabilities, including goodwill, has a recoverable amount that is greater than the net book value of those assets and liabilities. Whilst amortising goodwill would alleviate some of the issues by reducing the net book value of the assets and liabilities, this would generally only have a significant effect a number of years after the acquisition. Also, under an amortisation approach, there may still be concerns about (perceived) management optimism and the issue of 'too little, too late'.

The current approach of impairment testing does not make a distinction in determining the recoverable amount between the benefits from acquired goodwill and internally generated goodwill. As mentioned earlier, we do not believe that such distinction can be made for impairment testing purposes.

The question of whether management would adjust or create new management performance measures to add back the amortisation expense is probably best answered by preparers. However, we do not believe that this in itself should drive the decision on whether or not to choose the amortisation approach.

For further discussion on this point, please refer to our responses to questions 9 and 12.

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?

We do not agree with the proposal in the DP to require companies to present on their balance sheets the amount of total equity excluding goodwill, as we believe that the proposal in the ED/2019/7 *General Presentation and Disclosures* requiring goodwill to be presented as a separate line item on the balance sheet is sufficient, and the proposal is unnecessary as a result. In our opinion, this proposal would not have any added value from a financial reporting perspective and could possibly be incorrectly interpreted.

We do not understand the basis for deducting an asset from equity when the application of IAS 36 has shown that the carrying amount of the asset is recoverable.

Additionally, we observe that the disclosure of a negative equity balance may have unintended legal consequences in certain jurisdictions (for example, in bankruptcy proceedings).

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?

When the concerns below are appropriately addressed, we would support the concept of an indicator-based impairment test, as proposed by the DP, rather than a mandatory annual test. Our main concern with this approach would be the increase in the pressure on the impairment indicators, and we have the following points to note:

- The subjective nature of the current set of impairment indicators in IAS 36 causes diversity in practice in determining whether trigger events exist or not, and companies may avoid performing an impairment test in some cases, or not apply the indicators properly.
- One of the objectives of this project is to make the impairment test more robust, and one of the risk factors identified is management optimism. The introduction of an indicator-based approach may increase the risk of management optimism by adding another layer of subjectivity to the analysis.
- We believe that the indicators to be applied under the Board's proposals should be significantly more robust than they are currently described in IAS 36, and the assessment thereof by the company should be disclosed in a more transparent manner. This will avoid the inherent risk of potential management over-optimism in the assessment of the existence of trigger events, and to provide more transparency around the judgements made in this assessment.

In order to address these concerns, we believe that the Board should consider proposing that an annual impairment test is not required only under circumstances where, based on the indicator analysis, it is considered remote that an impairment would be identified when an actual impairment test would be performed.

This may also mean that the objective of the Board may be met by making, for example, paragraph IAS 36.99 more effective and practical to apply.

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.

Cash flows arising from a future uncommitted restructuring or from improving or enhancing the assets' performance

We support the proposal to remove the restriction in IAS 36 that prohibits companies from including some cash flows in estimating value in use (VIU), as it will make the forecasts consistent with those used by management and approved by those charged with governance, based on reasonable and supportable assumptions, without the need to make "artificial" adjustments.

In order to avoid the risk of perceived management optimism when incorporating the benefits of potential restructurings and investment, we believe robust additional guidance is needed, such as on the nature of evidence required to explain such management expectations and providing transparent disclosures. For example, we suggest that there is clear guidance given around the level of evidence needed for uncommitted restructurings to show that such restructurings are reasonable and supportable, such that the company can demonstrate both its intent and financial ability to implement the restructurings.

Post-tax cash flows and post-tax discount rates

We support the proposal to allow companies to use post-tax cash flows and post-tax discount rates to estimate VIU. However, we observe that the proposal effectively represents a disclosure simplification, because IAS 36 already allows entities to perform impairment tests based on post-tax discount rates and post-tax cash flows.

We observe that the complexity surrounding the use of post-tax cash flows and the interaction with income tax accounting (in particular, temporary differences, tax losses and other tax credits) will remain as complex as it is currently, e.g., in respect of intangible assets recognised in a purchase price allocation, where no tax amortisation benefit has been incorporated.

This issue arises in particular when goodwill increases as a result of the measurement of deferred taxes at nominal amount. This phenomenon is sometimes referred to as "technical" or "mechanical" goodwill (to differentiate it from "real" or "core" goodwill). We believe that this complex topic specifically requires further investigation and clarification by the Board, as it is not currently addressed in the DP.

We would support further exploration of these practical issues and guidance being provided in this area, unlike the Board's view in paragraph 4.52 of the DP.

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?

Please refer to our responses above. We do not have further views to add here.

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?

We agree with the Board's proposal not to include additional intangible assets in goodwill. We note that there is limited discussion in the DP about other intangible assets, but we believe that the Board should consider these in conjunction with any proposals made in respect of goodwill, as mentioned in our cover letter. For example, if the Board were to elect amortisation of goodwill, and extend this to other intangible assets, some business combinations would end up being loss-making in the first few years because of front-loading of the amortisation expense of other, shorter-lived intangible assets.

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?

Business combination accounting is currently mostly converged between IFRS and US GAAP, and we would prefer that the IASB and the FASB elect the same approach for accounting for goodwill.

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?

The proposals are unclear about whether and how they would apply to goodwill as part of applying the equity method under IAS 28 for joint ventures and associates. This is a material issue for some entities, and it would be helpful if the subsequent effects of the current proposals were considered for these situations as well.