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20 December 2020

Mr Hans Hoogervorst, Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
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Dear Mr Hoogervorst

Discussion Paper 2020/1 Business Combinations—Disclosures, Goodwill and Impairment

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment* ("the DP").

We support the Board's initiative to assess whether information provided to investors on business combinations can be improved, including by setting clearer disclosure objectives. However, we are not convinced that the proposals in the DP would result in disclosures that provide more useful information to users of the financial statements. We believe that additional work is required to understand more precisely what additional information is needed by investors and why it is needed, and what information is currently prepared by management to monitor the impact of business combinations. We believe that the Board should conduct joint focus groups comprised of investors and preparers to debate the needs of the former and the practices of the latter. Only after the discussion between the two groups has occurred, will the Board be able to assess whether the new requirements would improve the information provided to users of the financial statements.

We do not support the preliminary view of the Board not to reintroduce amortisation of goodwill. Whilst we continue to recognise the conceptual merits of the impairment-only model, we note that there continues to be a perception that too little impairment is recognised too late. The success of an impairment model depends on the availability of nearly perfect information about the future. Predicting future cash flows is an inherently difficult exercise which, coupled with a complex model, results in persistent difficulties in practical application by preparers and auditors alike. Further, as explained in the DP, shielding is a known problem of the current model. We agree with the conclusion in the DP that it does not appear feasible to design an impairment test that is significantly more effective at the timely recognition of impairment losses on goodwill at a reasonable cost. Therefore, in order to reduce the risk associated with overstatement of goodwill, we consider that a mixed model – amortisation supported by an impairment test when there is an indicator of impairment – would be preferable. We consider that this is an appropriate solution since we believe that goodwill amortisation has conceptual merits for the reasons presented in the DP. We further believe that a suitable amortisation period can be established by an entity, in line with the objectives for an acquisition.

Finally, without the reintroduction of goodwill amortisation, we strongly disagree with the proposal to remove the requirement to perform a quantitative impairment test every year. Having acknowledged that it is not feasible to design a significantly more effective impairment test to tackle the "too little, too late" issue, it appears counterintuitive to consider eliminating the requirement to perform an annual impairment test without a counter measure, such as reintroduction of goodwill amortisation.

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We have provided more detailed comments in response to the questions in the appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely,

Veronica Poole

Global IFRS Leader

SECTION 1 INTRODUCTION

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?

We agree with the overall objective of the project to provide investors with more useful information about the businesses an entity acquires. However, as explained in our response to questions 2 to 5 in Section 2, we do not believe that the disclosures proposed would necessarily achieve this objective.

We have noted in our detailed responses those answers that depend on answers to other questions. In particular,

- We strongly believe that relief from a mandatory annual quantitative impairment test is only appropriate if goodwill amortisation is reintroduced (see our response to Question 9)
- As we indicate in our response to Question 11, the proposal to permit including cash flows arising from a future uncommitted restructuring or from improving an asset's performance in the calculation of value in use would blur the line between the value in use and fair value of a cash-generating unit (CGU). If the Board pursues this proposal, we believe that the decision not to pursue the simplification proposed in paragraph 4.55(b) (mandating a single method for estimating recoverable amount or requiring an entity to select the method that reflects the way it expects to recover the asset) should be reconsidered.

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?

We are not convinced that the proposals in the DP would result in disclosures that provide more useful information to users of the financial statements on the subsequent performance of an acquisition. We believe that additional work is required to understand more precisely what additional information is needed by investors and why it is needed, and what information is prepared by management to monitor the subsequent performance of business combinations. We believe that the Board should conduct joint focus groups comprised of investors and preparers to debate the needs of the former and the practices of the latter. Only after the discussion between the two groups has occurred, will the Board be able to assess whether the new requirements would improve the information provided to users of the financial statements. This will also assist in the assessment of whether the benefits of the additional information justify the costs required to provide this information, including additional auditing costs.

Based on our experience, and as noted in paragraph 2.19 of the DP, we do not believe that entities generally monitor the performance of an acquisition as a standalone transaction as implied by the proposed disclosures. Business combinations tend to form one part of the overall strategic plan and business objectives of an entity. It is the performance of the entity (or the relevant segments of the entity) against the overall strategic plan and business objectives that is monitored rather than the specific contribution of the acquisition to these results. Among other factors, this reflects the fact management generally integrates quickly the acquiree within the group.

We note that the proposed disclosures are aimed, in part, at helping investors assess whether management has paid a reasonable price for the acquisition. The concept of "reasonable price" is highly subjective. We believe that it would be important to understand more precisely the nature of information that would be useful to investors in making that assessment and whether management produces and monitors such information. The price is agreed between the parties in a business combination at a point in time. In our experience, the price becomes historical information that is not generally the focus of monitoring by management post acquisition. Rather, we believe that post acquisition management tends to focus on monitoring the integration of the acquiree into the entity.

In response to the elements in (b) to (e) above, we note the following.

- We agree with the proposal in (b)(i) to clarify the current requirements to disclose "the primary reasons for an acquisition" by explaining that this should cover the strategic rationale and objectives for an acquisition, including both financial and non-financial objectives. However, we note that this does not appear to be reflected in the proposed disclosures related to subsequent monitoring by management which focus on financial information. We also believe that too much emphasis is placed on the price paid and quantification of the synergies expected (see our response to Question 4).

- In theory, we agree with the proposals in (b)(ii) and (b)(iii) that if information is to be provided, it should be the information used by the management rather than information imposed by the standard-setter. This is consistent with the fact that one of the key objectives of the revised disclosures is to explain to users the entity-specific objectives in pursuing the acquisition. However, as noted above, based on our experience, we do not believe that the information contemplated in the DP is generally monitored by management. Unless such information is indeed produced by a large proportion of entities, the requirements are unlikely to result in an overall significant improvement to the disclosures and the reasons given to explain why management does not monitor the performance of the acquisition are likely to be boilerplate.

- The proposals in (b)(iv) and (b)(v) are a reasonable extension of those in b(ii) and b(iii). However, we note that businesses are often integrated swiftly following an acquisition such that any metrics set at the date of acquisition may become outdated quickly. We suggest that field tests consider

whether the implied expectation that metrics continue to be relevant for at least two years is valid.

- We are concerned about the practical implementation of the proposal in (b)(vi) to provide revised metrics if an entity changes the metrics used over time. As noted in paragraph 2.21 of the DP, an entity will likely adjust any metrics initially used once the acquisition is integrated or upon a reorganisation which may be quite swift. As a result, the revised metrics may reflect a move from management assessing the post-acquisition performance of the new business to reviewing more broadly the operational results of operating segments. We believe that IFRS 8 provides a reasonable framework for disclosure of financial information related to operating segments. If the Board pursues this proposal, it would be useful to provide guidance to assess whether the purpose of the revised metrics is to continue to monitor the performance of the acquisition against an entity's original objectives.
- In response to item (c), we believe that the information obtained from the joint focus groups we suggested above may also inform the Board on whether additional guidance is necessary to ensure that an appropriate level of information is identified and disclosed. Often information is provided to the CODM at various degrees of granularity e.g. entity-level, CGU etc. Guidance might be needed to help both preparers and auditors determine which information provided to the CODM should be disclosed.
- We believe that the response to item (d) on the commercially sensitive nature of the information should be answered by the preparers concerned.
- Finally, in response to (e), we cannot comment on whether the information required to be disclosed would be forward looking. This is likely to be entity specific depending upon the nature of management's objectives and metrics used.

We also suggest that the Board assesses whether the information needs of investors relate to information that belongs in the financial statements. An objective of financial statements is to help users assess management's stewardship of an entity's economic resources. However, financial statements are only one of the tools available to management to communicate information to investors. We believe that the Board should investigate not only *what* additional information investors seek but also *why* they believe that this information would be useful to them. This would help assessing whether indeed the needs of investors can be met through improvement in the disclosure requirements in IFRS financial statements. Investors are often interested in the governance processes surrounding the decision to make an acquisition, including the price to be paid, as well as the impact of the acquisition on the key performance indicators (KPIs) that affect management compensation. Information of that nature may be better suited for the management commentary section of the annual report.

Finally, we believe that the Board should consider whether the volume of disclosure suggested is relevant for *all* business combinations. We believe this level of information is generally appropriate for strategically important and significant business combinations. We note that often entities enter in a business combination as a replacement of direct capital expenditures on the assets they want to secure. Equally, many capital expenditures projects are strategically important and significant. Overall, a balance needs to be considered to achieve a better explanation of how capital is invested. This is something that the Board may wish to consider as part of its project to improve disclosures in financial statements.

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?

We agree that the Board should accompany any significant addition to the disclosure requirements with clear disclosure objectives that help preparers determine what information should be provided.

However, the concerns we express in response to Questions 2 and 4 also apply to the disclosure objectives proposed in the DP. In particular, we consider that the focus of the proposed disclosure objectives on the benefits 'expected from an acquisition when agreeing the price to acquire a business' is problematic.

The quantification of expected benefits in relation to the price paid implies that the determination of the price is a 'science'. In reality, the price is generally based on consideration of multiple variables that cannot necessarily be justified on a systematic basis. Additionally, sometimes the measurement of the consideration transferred in a business combination applying IFRS 3 does not correspond to a fixed negotiated amount. For example, this may be the case if the consideration paid is in the form of equity issued and the share price of the acquirer varied significantly between the date the exchange ratio was established and the acquisition date. It may also be that management assessed the price in terms of dilution rather than the measurement required by IFRS 3. As such, it may be difficult to quantify the expected benefits in relation to this price.

Finally, focusing on the price does not appear to be conducive to ensuring accountability as once an acquisition has been made the price cannot be renegotiated; it is a sunk cost. As such, we would suggest that the focus of the disclosure objectives should be on whether the most is being made of the acquired assets following acquisition.

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 do not believe that the Board's proposals to require entities to quantify expected synergies are capable of practical implementation. This measurement would necessarily rely on highly judgemental estimates that undermine the relevance and reliability of the information that would be produced.

We also note that the disclosure proposed for synergies appears to reflect an expectation by the Board that management performs precise calculation of the estimated synergies and that this plays a key role in establishing the price paid for an acquired business. We recommend that additional investigations be conducted to establish whether pricing in this way is indeed a prevalent practice.

While we acknowledge that in many cases liabilities from financing and defined pension liabilities form major classes of liabilities and as such disclosure would be required, we do not believe that it is necessary to specify that this is the case. We note that IAS 7:44B already requires disclosure of changes in liabilities from financing activities arising from obtaining control of a business and IAS 19:141 requires the disclosure of the effect of business combinations as part of the reconciliation of the net defined benefit liability (asset). Accordingly, it does not appear necessary to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities that need to be disclosed separately in all cases.

Question 5

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

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

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

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

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

- *to replace the term 'profit or loss' with the term 'operating profit before acquisition-related transaction and integration costs' for both the pro forma information and information about the acquired business after the acquisition date. Operating profit or loss would be defined as in the Exposure Draft General Presentation and Disclosures.*
- *to add a requirement that companies should disclose the cash flows from operating activities of the acquired business after the acquisition date, and of the combined business on a pro forma basis for the current reporting period.*

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

We agree with the proposal to retain the requirement to present the pro forma information showing revenue and a measure of profit or loss of the combined business. This information appears relevant when evaluating the financial effect of business combinations, which is a primary objective of IFRS 3.

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We observe that in many jurisdictions regulators have additional requirements for pro forma information on business combinations. To avoid an entity having to prepare pro forma information using different bases of preparation for regulatory and financial statements purposes, we do not suggest that the Board develops further requirements. However, we believe that it is important for entities to disclose the basis of preparation of pro forma information to aid investors' analysis.

We support the proposal to replace the term "profit or loss" with the term "operating profit" (as would be defined in the Exposure Draft *General Presentation and Disclosures)* for both the pro forma information and information about the acquired business after the acquisition date. However, while the concept of acquisition related costs already exists in IFRS Standards and is therefore understood, the same cannot be said for the concept of "integration costs". We do not support requiring the disclosure of a metric (such as "operating profit before deducting acquisition-related transaction and integration costs") that relies on a term that is undefined.

We agree with the reasons cited in paragraph 2.78 of the DP to exclude financing costs from the pro forma information. However, because the financing costs of an acquisition may be significant and may be relevant for investors to compare the performance of entities that finance acquisitions through issuance of financing vs equity, the Board may wish to consider whether the existing requirements IAS 7.44B should distinguish financing raised to effect the business combinations from financing assumed as part of the business combinations.

While we understand why the proposed required disclosures of cash flows from operating activities could be useful to users of the financial statements, we believe that there are likely to be significant practical issues in the preparation of post-acquisition cash flows from operating activities information. For example, many entities manage cash and treasury functions on a group basis to minimise cash management and funding costs. Further, entities preparing cash flow statements using the direct method under IAS 7.18 may not track cash flows at this level of disaggregation. Therefore, we suggest that the Board should confirm the extent to which the information would be useful to users of the financial statements and investigate whether the benefits from providing this information would outweigh the costs of preparation.

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SECTION 3 GOODWILL AND AMORTISATION

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 agree that shielding is one of the key reason why impairment losses on goodwill are not recognised on a timely basis. Shielding is an unavoidable consequence of the allocation of goodwill to CGUs (or group of CGUs) coupled with the prohibition to recognise internally generated goodwill.

We agree that it does not appear feasible to design an impairment test that is significantly more effective at the timely recognition of impairment losses on goodwill at a reasonable cost. This is one of the reasons why we support re-introducing amortisation of goodwill (see our response to Question 7).

It appears a valid concern that in some cases management may be over-optimistic in its estimates for future cash flows. We note that management is responsible for the preparation of the financial statements and therefore for the judgements underlying the impairment tests. We disagree with the implications in the DP that the shortcomings of the impairment test can be attributed, in part, to the inability of auditors and regulators to address over-optimism that may be present in the cash flows used by management. As stated below, predicting future cash flows is an inherently difficult exercise which, coupled with a complex model, results in persistent difficulties in practical application by preparers and auditors alike.

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 amortisation 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?

We do not support the preliminary view of the Board not to reintroduce amortisation of goodwill.

In 2004, we agreed with the introduction of an annual impairment test, rather than amortisation, for goodwill. However, we also stated that there should be a rebuttable presumption that goodwill has an indefinite life and, where the presumption is rebutted, goodwill with a finite life should be amortised.

Whilst we continue to recognise the conceptual merits of the impairment-only model, we note that there continues to be a perception that too little impairment is recognised too late. The success of an impairment model depends on the availability of nearly perfect information about the future. Predicting future cash flows is an inherently difficult exercise which, coupled with a complex model, results in persistent difficulties in practical application by preparers and auditors alike.

Further, as noted in our response to Question 6, we agree that shielding is a problem of the current model. As demonstrated in the DP, it is not possible to address the effect of shielding through an impairment test alone. Amortisation of goodwill contributes to reducing the risk that acquired goodwill remains on the statement of financial position because of shielding.

Further, the application of the current model imposes significant costs on the preparers of financial statements. Specifically, we continue to see a significant proportion of the resources required to prepare and audit financial statements being devoted to the annual impairment review of goodwill. We agree with the conclusion in the DP that it does not appear feasible to design an impairment test that is significantly more effective at the timely recognition of impairment losses on goodwill at a reasonable cost.

Finally, we believe that significant components of acquired goodwill, such as synergies and assembled workforce, diminish over time and need to be replaced by incurring costs that otherwise would not be recognised as assets. As such, the goodwill purchased in an acquisition does not have an unlimited life. Conceptually, amortisation of goodwill is a recognition of that fact.

For all of these reasons and in order to reduce the risk associated with overstatement of goodwill, we consider that a mixed model – amortisation supported by an impairment test when there is an indicator of impairment – would be preferable. We consider that this is an appropriate solution since we believe that goodwill amortisation has conceptual merits for the reasons presented in the DP.

We acknowledge that if amortisation were to be reintroduced it is likely that entities would add back the amortisation expense. It is already the case that many entities add back impairment losses and various depreciation and amortisation expenses in the presentation of an EBITDA subtotal as an alternative performance measure (APM). Hence, this likely practice of adding back goodwill amortisation does not seem relevant to the decision of whether goodwill should be amortised. We would expect that appropriate disclosure of the APM would be provided, in line with the guidelines of IOSCO.

It is our view that an estimate can be made of the useful life of goodwill based on the understanding of the factors that contribute to goodwill and the original objectives of the acquisition. Where goodwill is attributed to, for instance, synergies or an assembled workforce, the length of time to utilise those benefits can be reasonably estimated. This is in line with the proposals in paragraphs 2.62-2.71 of the DP which shows that the Board believes that estimates about the realisation of synergies can be made and provide meaningful information to users. Further, we suggest that guidance could be developed to help preparers to estimate the useful estimated life of goodwill, for example considering the factors that make up the goodwill recognised or the industries involved.

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 that the Board should propose the presentation of 'total equity excluding goodwill'. We believe that if this number is useful to users, it can be easily calculated. Further, we do not see a clear rationale for excluding goodwill from total equity. It appears to send a message that goodwill should be treated differently from other assets or is not as valuable as other assets. The DP does not indicate why this would be the case.

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?

Without the reintroduction of goodwill amortisation, we strongly disagree with the proposal to remove the requirement to perform an annual quantitative impairment test.

Having acknowledged that it is not feasible to design a significantly more effective impairment test to tackle the "too little, too late" issue, it appears counterintuitive to consider eliminating the requirement to perform an annual impairment test without a counter measure, such as reintroduction of goodwill amortisation.

We believe that the proposal could result in the impairment test being significantly less robust without a significant cost reduction. In particular, we believe that

- Significant additional time would be spent analysing potential indicators of impairment. The additional detailed analysis may indeed uncover potential indicators requiring the performance of a quantative test or require significant analysis to dispel the existence of impairment indicators.
- The removal of the requirement to perform the test annually would result in a less robust test as less robust processes may be put in place. Preparers would be less experienced in performing the test so it may not be done to the same level of quality. Additionally, the controls around the process, including around the data and inputs, would be less robust if they were seldom utilised.

However, if amortisation of goodwill were to be reintroduced, we would support the removal of the mandatory annual impairment test. This is because we believe that the amortisation of goodwill would reduce the pressure on the impairment test.

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.

We do not agree with the proposal to remove the restriction from including cash flows arising from a future uncommitted restructuring or from improving an asset's performance in the value in use calculation. The DP fails to explain in what circumstances such cash flows would be included (for example, would the cash flows from a restructuring plan be included only if it is probable that the uncommitted plan will be required). Assuming a "probable" threshold, it is also unclear whether an entity would be required, or permitted but not required, to include cash flows from probable but uncommitted restructuring and from probable improvements or enhancements to an asset's performance. We expect that defining appropriate boundaries on this proposal would be difficult. Further, we are concerned that without such clear boundaries, this is an area that would involve significant judgements about the potential future actions of management that would be difficult to audit.

We also note that the proposal would result in determining the value of an asset based on its future potential, which is akin to its fair value.

We support the proposal to allow companies to use post-tax cash flows and discount rates in estimating value in use as the current requirement to use pre-tax amounts has been a source of significant practical difficulties. We suggest that guidance should be provided to help entities identify deferred tax balances that would need to be included in the carrying amount of the CGU (or group of CGUs), and those that should be excluded, when the impairment test is performed on a post-tax basis. The Board may also want to consider if a practical solution can be identified to address the potential mismatch between deferred tax balances, measured on an undiscounted basis and the discounted cash flows used in performing the impairment test.

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?

We believe that the simplification in 4.55(a) (adding guidance on the difference between inputs used in value in use and fair value) should be pursued. In our experience, we find that differentiating the two types of inputs is a source of significant practical challenges.

Our view on the simplification in paragraph 4.55(b) (mandating a single method for estimating recoverable amount or requirement for a company to select the method that reflects the way it expects to recover the asset) is linked to the Board's proposal to remove the restriction from including cash flows arising from a future uncommitted restructuring or from improving an asset's performance in the calculation of value in use. If the Board agrees with our view not to pursue this proposal, we agree that the simplification proposed in (b) is not necessary. However, if the Board pursues the proposal to permit including cash flows arising from a future uncommitted restructuring or from improving an asset's performance in the calculation of value in use, we believe the line between value in use and fair value will become blurred as in many cases both numbers would be developed using in many cases the same assumptions. In that case, it would be appropriate to consider further the simplification outlined in 4.55(b).

For the reasons stated in the DP, we agree with the Board's preliminary decision in 4.55 (c) not to allow companies to test goodwill at the entity level or at the level of reporting segment (which we understand as the segments after aggregation permitted by IFRS 8). However, in our experience, the concept of "monitoring goodwill" is not well understood mainly because it does not correspond to a usual management practice. As a result, goodwill is generally allocated at the operating segment level before aggregation. If the Board decides to retain the current requirements, we suggest that it should investigate whether in fact goodwill is monitored at a lower level and provide additional application guidance on how this is evidenced in practical terms.

Finally, except as noted above in relation to the concept of monitoring goodwill, we agree with the Board's preliminary decision that it should not attempt to develop guidance on the identification of CGUs and on allocation of goodwill to CGUs as it would be difficult to provide guidance that would apply to all entities.

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?

For the reasons stated in the DP, in particular in paragraph 5.25, we agree that the Board should not develop a proposal to allow some intangible assets to be included in goodwill. This should be the case even if the Board decides to reintroduce goodwill amortisation as most of the reasons stated in the DP would remain valid.

Further, regardless of its decision on goodwill amortisation, we do not believe that the Board should reconsider at this time the conclusion that some intangible assets have an indefinite life. Because they are identifiable, we do not believe that the shortcomings of an impairment test only approach identified in relation to goodwill exist to the same extent with application to intangible assets.

We believe that any change to the existing requirements on intangible assets should be considered holistically, addressing also intangible assets acquired separately. As noted in paragraph 5.24 of the DP, the upcoming Agenda Consultation will provide an appropriate opportunuity to assess whether a review of these requirements is warranted.

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?

We support reintroduction of amortisation which appears to be the consistent with the current preliminary views of the FASB. As such, we would support convergence with US GAAP on the key issue of amortisation. However, our view remains that amortisation of goodwill should be reintroduced even if the FASB reaches a different conclusion.

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?

We take this opportunity to bring to the attention of the Board the fact that some entities encounter practical difficulties performing the impairment test when a CGU includes right-of-use assets recognised applying IFRS 16 *Leases*, in particular determining the cash outflows to be included. Whilst this is an issue that affects both IAS 36 and IFRS 16, we suggest that the Board should consider how to best address this issue as it continues its work on improving the impairment test.