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IFRS Foundation
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Dear Members of the International Accounting Standards Board (IASB):

Wipfli LLP and Mind the GAAP, LLC appreciate the opportunity to provide our collective feedback on the IFRS Standards Discussion Paper DP/2020/1, *Business Combinations - Disclosures, Goodwill, and Impairment*.

Wipfli provides auditing and business consulting services and ranks among the top 20 practices in the United States. Mind the GAAP provides U.S. GAAP and IFRS consulting services to accounting firms and financial statement preparers throughout the world.

We truly appreciate the IASB's efforts in addressing stakeholder concerns raised during the Board's Post-implementation Review (PIR) and commend the IASB on the depth of analysis that underlies the Discussion Paper. We support the overall approach set out in the Discussion Paper to deal with PIR feedback through a "package of decisions" and agree with many of the IASB's specific proposals to address identified issues in reporting and disclosing business combinations and goodwill.

We do have some recommendations for clarifying and/or improving certain aspects of the Discussion Paper in contemplation of it becoming the basis for a future Exposure Draft. Please refer to the discussion in the forepart of this letter, which highlights our main suggestions for IASB consideration. Our answers to the Questions for respondents posed in the Discussion Paper are found in Appendix A.

If you have any questions regarding the contents of this letter, please contact Scott Ehrlich, President of Mind the GAAP, at +1 (773) 732-0654 or Zachary Mayer, Partner at Wipfli, at +1 (608) 270-2909.

Sincerely,

Mind the GAAP

Mind the GAAP, LLC

Wipfli LLP

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Information disclosed about whether management's objectives are met

The Discussion Paper generally would require entities to disclose information about whether management's objectives for an acquisition are being met, based on the metrics that management uses to monitor the success (or failure) of the transaction. We support this disclosure requirement and agree that it is critical to addressing PIR feedback. However, it was unclear from the Discussion Paper the exact nature and extent of the information that would need to be presented. We see two potential alternatives:

- An entity could simply make an affirmative statement (yes or no) as to whether the metric(s) was/were achieved, without disclosing the numerical amount of the metric(s) or detailing any shortfall or cushion.
- An entity could disclose the actual numerical amount of the metric(s) as compared with management's original objectives when consummating the acquisition.

We support the former alternative, as it would meet the goal of providing decision-useful information to financial users, without providing potentially commercially sensitive data. Moreover, simply providing an affirmative statement would be less costly for reporting entities to prepare and easier for auditors to test. Reporting entities could voluntarily elect to disclose the actual numerical amount of the metric(s) if they choose to do so.

Required timeframe for disclosing information about whether management's objectives are met

The Discussion Paper proposes that:

- A company should be required to disclose information about whether management's objectives are being met for as long as its management ("CODM") continues to monitor the acquisition to see whether it is meeting its objectives.
- If the 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.

We believe that information about whether a particular acquisition has met its objectives likely will diminish in value over time. For instance, continuing to disclose information about whether an acquisition made 20 years ago continues to meet management's objectives probably provides little benefit to financial statement users, even if management continues to track the performance of that acquisition. Although the point of diminishing returns will vary by acquisition, we would recommend that companies should not be required to disclose information about whether management's objectives are being met after five years from the date of acquisition, regardless of whether the CODM continues to monitor the performance of the acquisition after that time.

For consistency, we also believe that a company should be required to disclose whether the CODM has stopped monitoring the performance of an acquired business for up to five years from the date of acquisition (rather than the two year period indicated in the Discussion Paper).

Level at which impairment testing is performed

Findings from the PIR suggested that the goodwill impairment test is complex, time-consuming, and costly. Accordingly, we support the IASB's proposal to eliminate a required annual quantitative impairment test when there is no indication of impairment within a cash-generating unit ("CGU"). This proposed change should provide significant cost savings to many companies without a corresponding loss of decision-useful information for users of the financial statements.

Additionally, we would further recommend that the IASB change the level at which the goodwill impairment test is performed. IFRS currently requires goodwill to be tested at each CGU (or group of cash-generating units). This is usually a lower level of the organization relative to where goodwill is tested for impairment under U.S. GAAP – i.e., at the reporting unit level, and for some private companies, at the enterprise-level. Raising the level at which the impairment test is performed should reduce the amount of testing required by a reporting entity.

We appreciate that raising the evaluation level could introduce more "shielding"[1], but we believe that shielding actually may be appropriate conceptually and should not be considered an impediment to the timely recognition of impairments. Many business combinations are consummated to obtain cost savings or to increase opportunities for selling existing goods and services into new markets. Therefore, shielding may be – at least in part – due to the very synergies that the business combination was designed to achieve.

Introduction of a hybrid model

In our view:

- We agree that timely recognized impairment losses provide important information for investors – notably, confirmatory evidence that management's objectives in making an acquisition were not met (i.e., that management overpaid for an acquisition).
- Goodwill is a wasting asset. It will eventually be consumed, although in many cases such consumption may not start in the periods immediately following the acquisition.

Based on these beliefs, we would ask that the IASB consider a "hybrid model" that both requires the recognition of impairment losses when warranted, as well as reflects the consumption of goodwill through amortization.

Under our proposed hybrid approach, no goodwill amortization would occur during the periods immediately following an acquisition, as goodwill is not typically consumed during that time. However,

[1] The effect caused by combining an acquired business into a CGU that has "headroom" – i.e., whose pre-acquisition recoverable amount exceeds the carrying amounts of assets and liabilities in the CGU.

after a period of time, amortization should begin. For practical purposes, we suggest that companies be required to start amortization no later than five years from the date of acquisition. We further recommend that the amortization period should not exceed ten years. We are proposing a maximum ten-year amortization period for pragmatic reasons, as trying to determine a useful life for goodwill attributed to each acquisition would be subjective and costly for preparers, and add little value to investors (many investors will most likely add back amortization expense to arrive at EBITDA[2] or a similar-type of non-GAAP performance metric).

To be clear, we would still support impairment testing both before and during periods of goodwill amortization, with the testing reflective of the simplifications proposed in both the Discussion Paper (e.g., testing for impairment only when indicators of impairment are present) and in our earlier comments (e.g., performing the testing at a reporting unit level).

In sum, we believe that the hybrid model represents a good compromise between providing investors with timely information about an unsuccessful acquisition, while reducing cost and complexity for preparers. We also believe that the hybrid model best reflects conceptually how goodwill is consumed following an acquisition.

[2] Earnings before interest, taxes, depreciation and amortization

Appendix A

Questions for Respondents

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? We agree that a combination of actions is necessary to address feedback obtained from the Board's PIR process. There is not one specific amendment to the recognition and measurement provisions of IFRS, or the inclusion of a new disclosure requirement, that will by itself meet the objectives of this project. We do, however, have suggestions for improvements regarding certain of the Board's proposed "package of decisions" outlined elsewhere in this letter.

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? Generally, no. If any of our positions are dependent on another component of the Board's package of decisions, we have indicated as such in our response.

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? Yes, the disclosure requirements proposed by the Board would provide investors with better information on subsequent performance of an acquisition. In particular, we believe the following proposed disclosures will be extremely useful for investors:

- The strategic rationale and management's objectives for an acquisition
- Information about whether the company is meeting those objectives, based on metrics used by management to monitor and measure the success of an acquisition

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'. We agree that disclosing this information would provide decision useful information to investors. In forming our view, we considered whether the cost of disclosing this information would outweigh the benefits obtained. We determined, though, that it should not be costly (economically or strategically) for entities to make this disclosure. Following a significant acquisition, it is common for an entity to issue a press release. These press releases generally include statements from the company indicating why the acquisition was completed and the entity's objectives in making the acquisition. As a result, we do not believe that the costs of gathering this information would be significant, since it is likely to have been disclosed externally (or at least internally to an entity's Board or others charged with governance). Furthermore, we do not think disclosing management's objectives for completing an acquisition would be commercially sensitive or prejudicial since management is only stating its purpose in acquiring another entity and not its proprietary strategy for achieving those objectives.

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. We agree that companies should be required to disclose information about whether objectives are being met. We believe that doing so is critical to meeting the objectives of this project. However, it was unclear from the Discussion Paper the exact nature and extent of the information that would require disclosure. We see two potential alternatives:

- An entity could simply make an affirmative statement (yes or no) as to whether the metric(s) was/were achieved, without disclosing the numerical amount of the metric(s) or detailing any shortfall or cushion.
- An entity could disclose the actual numerical amount of the metric(s) as compared with management's original objectives when consummating the acquisition.

We support the former alternative, as it would meet the goal of providing decision-useful information to financial users, without providing potentially commercially sensitive data. Moreover, simply providing an affirmative statement would be less costly for reporting entities to prepare and easier for auditors to test. Reporting entities could voluntarily elect to disclose the actual numerical amount of the metric(s) if they choose to do so.

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). We agree that, as applicable, an entity should be required to disclose that it does not monitor the subsequent performance of an acquisition and explain why it does not do so. We think this information is important for investors to evaluate management's perspectives on whether (or how) the entity determines that an acquisition has been

successful and can provide potential predictive value for future acquisitions. However, in contrast to the proposal in the Discussion Paper, we believe that this disclosure should be required, as applicable, for periods up to five years after the acquisition date for each business combination.

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). We do not support this proposal. Instead, we believe that there should be a maximum period of time for which this disclosure is required (for example – 5 years), because the information will lose decision usefulness over time. That is, the performance of the acquired business relative to initial expectations becomes less relevant over time, similar in concept to the time value of money (i.e., after five years, any deviations in the expected performance of the acquired business lose significance on a present value basis). Moreover, beyond five years from the acquisition date, we believe that the costs of continuing to prepare the disclosure will outweigh the informational benefits provided to investors, especially if, as we have discussed elsewhere in this letter, the IASB reinstates amortization of goodwill, resulting in the carrying amount of that asset declining over time.

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). We agree with the concept of this disclosure, but believe that two years is too short of a period. Instead, we believe that the disclosure should be required (as applicable) through at least five years from the date of acquisition. In our anecdotal experience, many acquirers generate a significant portion of payback or return on investment in the five-year period following the purchase. Accordingly, if management decides to stop monitoring the performance of the acquired business before the end of this five year period, it could signal to investors that the acquisition is not performing as well as initially expected and/or an indicator of potential goodwill impairment. Expanding the timeframe for making this potential disclosure from two to five years post-acquisition would be more consistent with one of the main project objectives – to "improve the information provided to investors about an acquisition and its subsequent performance".

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). We agree with this disclosure requirement as it will provide investors with decision-useful information about how management has assessed, and will assess in the future, the performance of an acquisition. Additionally, if management changes the metrics used to evaluate the success of the acquisition, we think that the new metrics should be disclosed on a retrospective for all periods presented, if practicable, indicating whether the revised objectives would have been met in prior periods.

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? We agree that the information should be based on the information a company's CODM

reviews. In our experience, the CODM reviews an entity's most important and significant acquisitions. Accordingly, limiting the disclosure to acquisitions reviewed by the CODM appears to be an appropriate threshold or cutoff for providing decision-useful information to investors. We would be concerned that the volume of disclosure could become onerous (and potentially meaningless to investors as a result of "disclosure overload") if a company's disclosures are expanded beyond acquisitions reviewed by the CODM. We are not concerned that companies would try to deliberately subvert the proposed disclosures by failing to provide material information about acquisitions to the CODM. Our anecdotal experience suggests that reporting entities have complied when required to provide similar disclosures for segment reporting (i.e., based on information reviewed by the CODM).

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? We acknowledge that concerns about commercial sensitivity are legitimate. For example, a reporting entity might acquire a company that was in the process of developing a new product. The metrics used by the CODM to evaluate the commercial success of the transaction may be milestones associated with the commercial development process and bringing the product to market, which could be commercially sensitive. Still, we are hesitant to provide companies an exception as providing such an exception might lead to its overuse, as a crutch/justification for not providing decision-useful information to investors. We believe that this concern can be mitigated by simply requiring an entity to make an affirmative statement (yes or no) as to whether the metric(s) were achieved, without disclosing the numerical amount of the metric(s) or detailing any shortfall or cushion.

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? The recognition and/or measurement of many accounts as of a financial reporting date are largely based on estimates, including future expectations determined using currently available information (e.g., bad debt reserves, litigation provisions, etc.). We view the metrics used by management to evaluate a business combination similarly. Accordingly, we would not foresee any issues around disclosing the IASB's proposed metrics in the U.S. jurisdiction. Disclosure should not violate any U.S. GAAP requirements or raise regulatory issues (e.g., Securities and Exchange Commission, banking, insurance, etc.).

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 with the Board's view, except that we are concerned by the use of the phrase "extent" in the second bulleted objective ("the extent to which an acquisition is meeting management's (CODM's) objectives for the acquisition"). As noted in our earlier responses, it was unclear from the Discussion Paper whether the Board's intent was for an entity to:

- Simply make an affirmative statement (yes or no) as to whether the metric(s) was/were achieved, without disclosing the numerical amount of the metric(s) or detailing any shortfall or cushion.
- Disclose the actual numerical amount of the metric(s) as compared with management's original objectives when consummating the acquisition.

We support the former alternative. If the Board agrees, then we would suggest modifying the second bulleted objective to read: "whether an acquisition is meeting management's (CODM's) objectives for the 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 generally agree with disclosing additional information about anticipated synergies resulting from a business combination. Of note, in most cases, we believe management would have already estimated the expected synergies when determining the price it was willing to pay for an acquired business and that this information would be useful to investors. Accordingly, a reporting entity should be able to disclose the estimated amount or range of expected synergies. We would suggest though, that in any formal Exposure Draft or final IFRS, the IASB define "synergies" and/or provide additional guidance or examples of typical synergies in a business combination. Providing a definition would make the disclosure more operable. We would suggest that the definition include common examples of measurable synergies such as, but not limited to:

- Reductions in headcount,
- Expected cost savings associated with shutting down a production line or closing a location, or
- Anticipated sales growth (in currency units or percentage growth) from expanding product or service offerings.

We do not agree with separately specifying liabilities arising from financing activities and defined benefit pension liabilities. We believe that sufficient disclosure of these liabilities is already required by other parts of IFRS, including but not limited to IAS 1.

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? We agree with the Board's view to retain the requirement for companies to prepare pro forma information. In our experience, we find the informational value of providing pro forma information to users outweighs the cost of preparers to produce this information.

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? We welcome more guidance from the Board on this topic. We would encourage the Board to leverage thinking issued by the Securities and Exchange Commission ("SEC") in Release No. 33-10786. In this release, the SEC provided additional pro forma guidance around three common categories of pro forma adjustments: (i) Transaction Accounting Adjustment, (ii) Autonomous Entity Adjustments, and (iii) Management's Adjustments.

Integrating acquisitions vary in practice. Therefore, we would support the Board requiring companies to disclose how pro forma information is prepared. This disclosure would be helpful for comparability across companies and industries, and to ensure that the pro forma disclosures are not misleading to users.

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? Without knowing the definition of 'acquisition-related transaction and integration costs', we are not able to fully answer this question.

Our concern is that the term 'integration costs' could be defined broadly. If defined broadly, we believe it will be costly for preparers to determine integration costs. It may also be challenging for auditors to test this disclosure since there may not be much evidence as to what qualifies as an integration cost beyond representations of management. To demonstrate, consider the payroll costs of acquirer employees who are tasked with migrating human resource data of the acquired business onto a single personnel management system. The payroll costs allocable to this particular migration activity would be largely based on a management estimate. We would be more supportive of the Board's proposals in paragraphs 2.78-2.81 of the Discussion Paper if the term 'integration costs' was defined narrowly to include just the direct, objectively determinable, and incremental costs of the acquisition, such as the costs to relocate employees to different locations as a direct result of the acquisition.

We also are concerned that companies may not be able to disclose post-acquisition operating profit of the acquired business if (a) it has been integrated into an existing CGU and/or (b) there is no separate general ledger for the acquired business. We recognize that IFRS 3 already contains an arguably more challenging disclosure requirement – to report the profit and loss of the acquired business after the acquisition date. So our concern may be unfounded, but we would still suggest that the Board perform outreach to preparers to assess the feasibility of this disclosure requirement.

We do not support the Board's view to require companies to disclose cash flows from operating activities of an acquired business after the acquisition date and on a pro forma basis. The information needed to prepare this disclosure may not be readily available for preparers who have quickly integrated the acquisition into other parts of the entity, and likely would not provide information that is especially helpful to financial statement users. Simply, the cost of this type of disclosure would seem to outweigh its potential benefits.

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?
While we generally agree with the Board's conclusions, we would suggest that the Board consider changing the level at which the goodwill impairment test is performed. IFRS currently requires goodwill to be tested at each CGU (or group of cash-generating units). This is often a lower level of the organization relative to where goodwill is tested for impairment under U.S. GAAP – i.e., the reporting unit level, and for some private companies, at the enterprise-level. Raising the level at which the impairment test is performed should reduce the amount of testing required by a reporting entity. We appreciate that raising the evaluation level could introduce more shielding, but we believe that shielding actually may be appropriate conceptually and should not be considered an impediment to the timely recognition of impairments. Many business combinations are consummated to obtain cost savings or to increase opportunities for selling existing goods and services into new markets. Therefore, shielding may be – at least in part – due to the very synergies that the business combination was designed to achieve. In sum, while we agree that it may not be feasible to design an impairment test that is

significantly more effective at the timely recognition of goodwill impairment losses, we do believe that the level at which the testing is performed can be raised without a loss of decision useful information.

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? Please see our response to question 6(a).

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? As mentioned previously, we are not concerned that shielding leads to a delay in recognizing goodwill impairment losses. However, we do agree that over-optimism is a principal reason for improperly delaying the recognition of impairments. But we are uncertain how or whether accounting rules can regulate over-optimism.

Another possible reason for delayed recognition of impairment losses is the judgment involved in determining the inputs and assumptions underlying the impairment test. That is, even when management has taken a neutral view, it is difficult to estimate the recoverable value of the CGU, which may unintentionally result in delays in recognizing losses.

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? Apart from the items specified in our previous comments (e.g., performing the goodwill impairment test at the reporting unit level), we do not believe the Board should consider other aspects of IAS 36 in this project.

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.) We disagree with the Board's preliminary view to not reintroduce amortization of goodwill; instead, we believe that goodwill should be amortized. Our view is that goodwill is a wasting asset that is consumed over time. We acknowledge that goodwill is not necessary consumed on a straight-line basis, and that the consumption does not necessarily start the moment the business is acquired. For this reason, we would propose that the Board consider a "hybrid model". Under our proposed hybrid approach, no goodwill amortization would occur during the periods immediately following an acquisition, as goodwill is not typically consumed during that time. However, after a period time, amortization should begin. For practical purposes, we suggest that companies be required to start amortization no later than five years from the date of acquisition. We further recommend that the amortization period should not exceed ten years. We are proposing a maximum ten-year amortization period for pragmatic reasons, as trying to determine a useful life for goodwill attributed to each acquisition would be subjective and costly for preparers, and add little value to investors (many

investors will most likely add back amortization expense to arrive at EBITDA or a similar-type of non-GAAP performance metric).

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? Not applicable. Neither Mind the GAAP not Wipfli had previously taken a position on the appropriateness of amortizing goodwill.

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? Yes and no. On the one hand, the reintroduction of amortization would not resolve the main reasons why companies do not recognize the impairment losses on goodwill on a timely basis. For instance, as discussed previously, we believe the main reason for the delayed recognition of impairment losses is over-optimism on the part of management. Amortization of goodwill would not resolve this causal reason. However, amortization would lessen the burden of companies performing the impairment test many years after acquisition when triggering events may be more macroeconomic in nature – such as a global pandemic – rather than business-specific. Moreover, the amortization of goodwill would likely blunt the impact of any impairment losses in periods well after the initial acquisition date when arguably investors would find the recognition of these losses more distracting than useful. That is, the recognition of impairment losses many years after acquisition does not provide decision-useful information to investors, and instead may actually mask the underlying performance of the business as a whole.

d) Do you view acquired goodwill as distinct from goodwill subsequently generated internally in the same cash-generating units? Why or why not? We do not view acquired goodwill as distinct from internally generated goodwill within the same cash-generating unit. Whether it was acquired or internally developed, goodwill represents value that cannot be ascribed to identifiable assets, such as assembled workforce or synergies of the company.

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? If amortization is reintroduced, we do not think companies would create new management performance measures. Instead, existing performance measures like EBITDA or adjusted EBITDA would simply be adjusted to reflect the amortization of goodwill in combination with other pre-existing depreciation and amortization expenses.

In our experience, companies use adjusted EBITDA measures that add back various non-cash expenses and losses (including impairment losses) as performance measures. While the impairment loss is an important measure to determine the success of an acquisition, we still find that investors are concerned with the performance of the entire entity on a "normalized" or ongoing basis, absent the effects of both (a) one-time charges and (b) non-cash expenses and losses.

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? In our view, the amortization of acquired goodwill should be consistent with how it is consumed. Unlike purchasing a new automobile from the dealer lot, the value of goodwill shortly after acquisition does not generally diminish immediately. However, over time and like almost every other asset, the value of the acquired goodwill does decline. While it will vary by acquisition, we believe that the consumption of goodwill generally does not commence in the first 1-5 years following acquisition. During this integration or "honeymoon" period, we would support an impairment-only model (as applicable – i.e., following a triggering event) without any goodwill amortization. We would propose that entities should be allowed flexibility for each acquisition to determine how long the integration period should be, but not to exceed 5 years. After the integration period, we believe goodwill should be amortized on a straight-line basis not to exceed 10 years. We are proposing a maximum ten-year amortization period for pragmatic reasons, as trying to determine a useful life for each acquisition would be costly for preparers and add little value to investors for the reasons espoused elsewhere in this letter.

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? We do not think the Board should develop a proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill. We are worried that presenting this measure could result in potential confusion and information overload on the balance sheet. Moreover, if truly relevant, users can readily calculate this metric on their own from information already presented in the financial statements.

b) Do you have any comments on how a company should present such an amount? We do not agree with presenting a net goodwill number on the balance sheet as answered in question 8(a). However, if the majority of other constituents believe this type of presentation is appropriate, we would ask that the Board consider presenting "net tangible assets" subtotal on the balance sheet. Net tangible assets would be calculated as total assets less intangibles and goodwill.

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? We agree that the Board should develop proposals to remove the requirement to perform a quantitative impairment test every year and move towards a "triggering event" model for testing. In our experience in the United States, we have found our clients experience cost savings when implementing the optional "Step 0" qualitative test

permitted in Accounting Standards Codification Subtopic 350-30, *Goodwill*. Moreover, certain private companies in the U.S. have further benefited from only being required to perform goodwill impairment test when "an event occurs or circumstances change that indicate that the fair value of the entity (or the reporting unit) may be below its carrying amount (a triggering event)".

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. We believe implementing a qualitative "Step 0" test would significantly reduce costs. We have found our clients in the United States have experienced cost savings using this method. There are often clearly identifiable factors – such as profitability of the cash-generating unit, positive macroeconomic and microeconomic indicators, positive industry growth, and no key employee turnover – which make it very obvious that goodwill is not impaired. Documenting this information would be less costly than performing an annual quantitative impairment test, including preparing forecasts and (often) paying a third-party valuation firm to determine the fair value of the reporting unit/CGU. The costs savings are even greater with private companies who are already amortizing goodwill (and debatably have less risk of a significant goodwill impairment loss).

c) In your view, would the proposals make the impairment test significantly less robust (see paragraphs 4.22–4.23)? Why or why not? We do not think this proposal would make the impairment test significantly less robust. In particular, we disagree with the commentary in paragraph 4.23. If qualitative factors indicate that an impairment is possible, we find that more effort and scrutiny is placed on the quantitative impairment test by both preparers and auditors.

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? We support removing the restrictions in IAS 36 that prohibit companies from including certain types of cash flows in estimating value-in-use. We concur with the arguments written in paragraph 4.38(c) that the measurement would be more consistent between fair value as well as value-in-use. We also would be supportive if the Board developed proposals to allow companies to use post-tax cash flows and post-tax discount rates in estimating value-in-use.

Note: We intentionally did not respond to the remainder of Question 10, or to Questions 11-12. Many of our earlier responses would be similarly applicable in responding to these questions.

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? Under the operating procedures of the FASB, special accommodations are often considered for, and ultimately provided to, private companies when applying US GAAP. This is because users of private company financial statements are typically the equity owners and credit institutions, who have a close relationship with management. In our experience, such users will already have access to information regarding the performance of a business combination. Accordingly, if the FASB were to undertake a similar project around Business Combinations - Disclosures, Goodwill, and Impairment, we might suggest that the FASB to consider whether its private company decision framework may allow for an exception, or optional policy election, to omit the disclosure about whether management's objectives for an acquisition are being met, including the metrics that management uses to monitor the success (or failure) of the transaction.

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? In developing a formal Exposure Draft, we would ask the Board to consider situations where an acquirer splits, and integrates, an acquired business into multiple CGUs or reporting units. Of note, we would ask the Board to evaluate whether in this fact pattern, the reporting entity would be able to comply with any proposed disclosures around whether management's objectives for an acquisition are being met, including the metrics that management uses to monitor the success (or failure) of the transaction.