December 22, 2020

IFRS Foundation
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SOCPA Comments on Discussion Paper: Business Combinations—Disclosures, Goodwill and Impairment

Dear Colleagues,

The Saudi Organization for Certified Public Accountants (SOCPA) appreciates the efforts of the International Accounting Standards Board (Board) and welcomes the opportunity to comment on the *Discussion Paper: Business Combinations—Disclosures, Goodwill and Impairment*.

Below are our comments on the Board's preliminary views as stated in paragraph IN9 of the discussion paper:

(a) **Board's preliminary view:** should develop proposals to enhance the disclosure objectives and requirements in IFRS 3 to improve the information provided to investors about an acquisition and its subsequent performance;

SOCPA Comments: We agree with this view. This is supported by some academic studies that documented high rate of acquisition failure. We suggest the required disclosure should include some forward-looking information in term of the expected condition of the industry in which the entity and its acquired business operates. This may include, for example, minimum information about the expected level of competition, technological advancement and expected changes in legal environment that may favorably or unfavorably affect the previous proposed targets of the acquisition. Such disclosures may be disclosed in the note to the financial statements or by cross reference to other documents such as management commentary.

Regarding the Board intention not to prescribe specific metrics to be disclosed, we suggest that the Board prescribes minimum requirements to reduce the bias in the selection of the metrics. The none existence of a single metric that could provide investors with adequate information for evaluating the subsequent performance of all acquisitions doesn't relieve the Board from developing a metric that would enhance the information usefulness taking in consideration the cost of providing such information. Moreover, prescribing specific metrics will reduce the opportunity for boilerplate disclosure.

We notice in the Board's view stated in paragraph 2.91 that these amendments are more suitable to those unintegrated acquired business. The fully integrated combined acquirees should have been addressed in the Board's view.

(b) **Board's preliminary view:** cannot design a different impairment test for cash-generating units containing goodwill that is significantly more effective than the impairment test in IAS 36 at recognising impairment losses on goodwill on a timely basis and at a reasonable cost;

SOCPA Comments: Although we agree with this view, we see it as reasonable basis for reintroducing amortization of goodwill.

(c) **Board's preliminary view:** should not reintroduce amortization of goodwill;

SOCPA Comments: we disagree with this view. Although impairment only model is a sound theoretical measurement of the diminishing value of goodwill, it is already evidenced for the Board that the current application of the impairment only model across the world, despite of the long experience with IAS 36 requirements, has resulted in recognizing impairment too late with too little amount. We concur in general with the views documented in the paper, paragraphs 3.57-3.68, that amortization should be reintroduced alongside the impairment requirements. The Board, however, should set specific requirements suitable for amortizing goodwill taking into consideration the specific nature of every cash-generating unit to which goodwill is assigned.

(d) **Board's preliminary view:** should develop a proposal to help investors better understand companies' financial positions by requiring companies to present on their balance sheets the amount of total equity excluding goodwill;

SOCPA Comments: We agree principally with this view. However, we recommend that the exclusion should be made from both total assets and total equity and liability. This will enhance comparability between entities and ease the financial analysis in relation to the liquidity and solvency of the entity where goodwill does not contribute to the liquidity of the entity because it is neither a liquid asset nor a separable asset.

(e) **Board's preliminary view:** should develop proposals intended to reduce the cost and complexity of performing the impairment test by:

(i) providing companies with relief from having to perform an annual quantitative impairment test for cash-generating units containing goodwill if there is no indication that an impairment may have occurred; and

(ii) extending the same relief to companies for intangible assets with indefinite useful lives and intangible assets not yet available for use;

SOCPA Comments: We agree with this view as its effect will result in considerable reduction of requirement implementation cost with low effect on information that might be lost by such amendment.

(f) **Board's preliminary view:** should develop proposals intended to reduce cost and complexity, and to provide more useful and understandable information by simplifying the requirements for estimating value in use by:

(i) removing the restriction on including cash flows from a future uncommitted restructuring or from improving or enhancing an asset's performance; and

(ii) permitting the use of post-tax cash flows and post-tax discount rates; and

SOCPA Comments: We agree with this view as its effect will result in considerable reduction of requirement implementation cost with low effect on of information that might be lost by such amendment.

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(g) **Board's preliminary view:** should not change the range of identifiable intangible assets recognised separately from goodwill in an acquisition.

SOCPA Comments: We agree with this view. In fact, we consider that recognition of more assets separately from goodwill provides more transparency and more representation of what has been acquired in a business combination.

Other matters:

1. We notice the Board's view stated in paragraph IN26 about the problem of over optimistic estimation of cash flows, where the Board suggests that such problem is best addressed by auditors and regulators, not by changing IFRS Standards. Although we agree in principle with this view, we see the role of IFRS standards is to promote fairness of financial statements presentation and deter, or at least reduce, manipulation and window dressing in any format. Therefore, providing disclosure requirements that address such problem may provide useful information that reduce the negative effect of over optimistic estimation of cash flows.
2. We would like to suggest redrafting the definition of goodwill in a way reflecting the intended component of that asset as being discussed in paragraphs BC313–BC318 of the Basis for Conclusions on IFRS 3, where the Board accepts the 'going concern value' and the 'expected synergies' as part of goodwill. The suggested definition is as follows: "Goodwill is an inseparable asset representing the future benefits arising from either the going concern value of the acquiree or from the synergies of the acquiree's and acquirer's assets."

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames

Secretary General