

Mr. Hans Hoogervorst
IASB Chair
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Mr. Jean-Paul Gauzès
President of the EFRAG Board
EFRAG
Square de Meeûs 35
B-1000 Brussels
Belgium

Submitted via website

Brussels, 30 November 2020

**Subject: Discussion Paper – Business Combinations – Disclosures, Goodwill and Impairment
Accountancy Europe comment letter**

Dear Mr. Hoogervorst, Mr. Gauzès,

We are pleased to respond to the International Accounting Standards Board (IASB) Discussion Paper (DP) – Business Combinations – Disclosures, Goodwill and Impairment and EFRAG’s Draft Comment Letter (DCL) thereon.

Accountancy Europe welcomes the DP as it aims to provide users with better information about acquisitions companies make, which would help users better assess the performance of the acquisition and in turn hold management more accountable for these acquisitions. To this end, the proposals would improve transparency in the market and facilitate better management stewardship.

In addition, we appreciate that some proposals on simplifying the impairment test would help in reducing costs, whilst continuing to provide useful information.

We generally agree with many of the proposals in the DP. However, we believe that some points we describe hereinafter merit further consideration by the IASB.

Disclosing information about acquisitions

Accountancy Europe agrees that disclosures about the strategic rationale and management's objective for undertaking the acquisition, as well as disclosures on synergies would help users better understand the subsequent performance of the acquisition and ultimately make management more accountable for these decisions.

However, we suggest the IASB to consider using a lower management level than the chief operating decision maker (CODM) (e.g. segment or division) as the threshold for providing disclosures on the objectives of the acquisition and the metrics monitored. The CODM typically monitors only a few very large acquisitions important for strategic decisions, whereas a lower management level may monitor smaller, yet material acquisitions. In addition, disclosures about monitoring at a lower management level will allow for better alignment with impairment testing assessments.

In addition, due to the nature of this information, risks and cost associated, we suggest the IASB allow for these disclosures to be provided either in the notes to the financial statements or, by cross-reference to the management commentary, in case this information is presented there and is available to users on the same terms and time as the financial statements.

Furthermore, we suggest further clarifications and definitions of some terms on proposals of synergies disclosures. It is also important to strike a reasonable balance between users' benefits from this information and preparers' concerns on commercial sensitivity as well as costs for providing these disclosures.

Finally, we advise the IASB to consider the risk of boilerplate and costly disclosures of all these proposals when considered together with the current IFRS 3 *Business Combinations* requirements.

Simplifying the goodwill impairment test

Accountancy Europe agrees that it is not feasible to design a significantly more effective impairment test as part of this project which does not envisage a comprehensive revision of IAS 36 *Impairment of Assets* (IAS 36). Therefore, we suggest the IASB undertakes a comprehensive review of IAS 36 focusing on the cash-generating unit (CGU) and impairment testing concept. Despite this, we suggest the IASB pursues the idea of adding guidance on identifying CGUs and on allocating goodwill to CGUs in order to further simplify and improve the effectiveness of the impairment test.

Nonetheless, we appreciate the IASB's efforts on simplifying and reducing the costs of the impairment test.

On one hand, we do not support replacing the annual quantitative impairment test with an indicator-based approach as this proposal would result in useful information being lost and would make the impairment test less robust.

On the other hand, we support the proposed simplifications in estimating value in use as they would reduce costs, complexity and diversity in practice. However, even if these proposals result in a higher convergence of the value in use and fair value less costs of disposal, we suggest retaining the "higher of" concept as these concepts are used for different purposes.

Amortisation for goodwill

Accountancy Europe does not express a preference on either the impairment-only model or the amortisation model for the subsequent accounting of goodwill as we recognise that there are benefits and challenges to both models.

Subtotal 'total equity excluding goodwill'

Accountancy Europe does not support presenting subtotal 'total equity excluding goodwill' in the balance sheets as it may cast doubts on goodwill as an asset and the reliability of the impairment test. Moreover, we note that this figure can be computed easily, especially considering the proposals under IASB's Exposure Draft – General Presentation and Disclosures.

Recognising intangible assets separately from goodwill

Accountancy Europe supports the IASB's view on not developing a proposal to allow some intangible assets to be included in goodwill. It would be a false signal not to account for recognisable acquired intangible assets separately considering the ever-increasing importance of intangibles in today's business models. To this end, we suggest the IASB undertakes a comprehensive project on IAS 38 *Intangible Assets*.

Other comment

We suggest that the Board field tests these proposals in order to understand if they provide users with sufficiently more useful information about the acquisition to outweigh the additional costs for preparers. Such field testing may help the Board better assess to what extent the general objective of the DP (i.e. help users better assess the performance of the acquisition and ultimately improve transparency and facilitate better management stewardship) would be met in practice.

* * *

We kindly refer to the annexes to this letter (i.e. Annex 1, Annex 2 and Annex 3) for our detailed responses.

Please do not hesitate to contact Jona Basha (jona@accountancyeurope.eu) in case of any questions or remarks.

Sincerely,



Olivier Boutellis-Taft

Chief Executive

ABOUT ACCOUNTANCY EUROPE

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ANNEX 1: IASB DP – QUESTIONS FOR RESPONDENTS

We are pleased to provide below our detailed responses to the questions.

Question 1

Paragraph 1.7 summarises the objective of the Board’s research project. Paragraph IN9 summarises the Board’s preliminary views. Paragraphs IN50–IN53 explain that these preliminary views are a package and those paragraphs identify some of the links between the individual preliminary views.

The Board has concluded that this package of preliminary views would, if implemented, meet the objective of the project. Companies would be required to provide investors with more useful information about the businesses those companies acquire. The aim is to help investors to assess performance and more effectively hold management to account for its decisions to acquire those businesses. The Board is of the view that the benefits of providing that information would exceed the costs of providing it.

(a) Do you agree with the Board’s conclusion? Why or why not? If not, what package of decisions would you propose and how would that package meet the project’s objective?

(b) Do any of your answers depend on answers to other questions? For example, does your answer on relief from a mandatory quantitative impairment test for goodwill depend on whether the Board reintroduces amortisation of goodwill? Which of your answers depend on other answers and why?

- (1) Accountancy Europe supports the DP’s objective to provide investors with better information about acquisitions companies make. Better information will improve investors’ understanding on such transactions, and ultimately make management more accountable for these decisions.
- (2) However, we partially support the IASB’s preliminary views shared in paragraph IN9 and express the following reservations:
 - a. the CODM may not be the right threshold to use for the proposed disclosures (see our comments in paragraphs 7 – 10)
 - b. the IASB should allow providing these disclosures either by cross reference in the management commentary or in the notes to the financial statements (see our comments in paragraphs 15 – 16)
 - c. more guidance is needed in the proposals on synergies disclosures (see our comments in paragraph 22 – 28) as well as on how to prepare the proforma information (refer to paragraph 30 of our response)
 - d. we do not express a preference between the amortisation model or the impairment-only model for the subsequent accounting of goodwill (see paragraphs 38 – 39)

- e. we do not support the proposal to present the subtotal ‘total equity excluding goodwill’ in the balance sheet (see paragraphs 42 – 44)
- f. we do not support replacing the requirement for an annual quantitative impairment test with an indicator only-based approach (see paragraphs 45 – 49).

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?*

- (3) Accountancy Europe agrees that the disclosure requirements prescribed in paragraphs 2.4 – 2.44 of the DP would help investors understand the subsequent performance of the acquisition and assess whether management’s objectives for the acquisition are being met.
- (4) We understand that replacing the current requirement to disclose the primary reasons for an acquisition as per paragraph B64(d) of IFRS 3 *Business Combination* (IFRS 3) with a requirement to provide the strategic rationale and management’s objectives for the acquisition provides a logical starting point for comparison in assessing subsequent performance of the acquisition.
- (5) However, we note that disclosures about management’s strategic rationale for undertaking the acquisition, the objectives of the acquisition and metrics used to monitor the acquisition may be commercially sensitive. For example, as part of the ‘synergies’ element of the price, a company may have planned restructurings to fully benefit from such synergies. Therefore, we suggest the IASB to consider the right balance between the benefits to investors and the commercial sensitivity of these disclosures.
- (6) Accountancy Europe supports taking a management approach rather than prescribing metrics to monitor and measure whether the acquisition’s objectives are being met. This would ensure company-specific and relevant information and avoid boilerplate disclosures.
- (7) However, we think that the CODM level might not be appropriate for monitoring the acquisition. The CODM typically monitors only a few very large acquisitions, important for strategic decisions. Whereas a lower management level may monitor smaller, yet material acquisitions. This is the case especially in larger groups where acquisitions are often monitored by segment and/or divisional management rather than by the CODM.
- (8) It might be presumed that disclosures based on the CODM level for monitoring automatically capture material transactions and they prevent voluminous disclosures. However, we highlight that in all cases these disclosures must adhere to the materiality principle of IAS 1 *Presentation of Financial Statements* (IAS 1).
- (9) Furthermore, we consider the Board’s proposals as complementary to addressing the ‘too little too late’ criticism of goodwill impairment. Providing investors with information that would help them assess the subsequent performance of the acquisition would ultimately enable them to confirm impairment charges or lack of thereof. Therefore, we suggest aligning the management level at which monitoring is done for the purpose of the disclosures proposed in this DP to the management level involved in impairment testing as per IAS 36 *Impairment of assets* (IAS 36).
- (10) To this end, we suggest the IASB considers a lower management level as the threshold for monitoring the acquisitions (e.g. the level at which goodwill is being monitored internally) and to disclose metrics used by this level of management.

- (11) However, we suggest the Board to consider the relationship between these metrics and the indicators and evidence considered for impairment testing as per paragraphs 12 – 16 of IAS 36. This would become easier if monitoring is also done at a lower management level (i.e. the same as monitoring for impairment), as provided in paragraphs 7 – 10 of our response.
- (12) Accountancy Europe supports the presumption that management monitors acquisitions, especially in the first few years of the acquisition. Therefore, we agree with the IASB’s proposal to require disclosing information for as long as management continues to monitor the acquisition and to disclose the reasons why management is not monitoring an acquisition during these first few years.
- (13) Accountancy Europe agrees with the rationale that in time the acquiree is fully integrated with the rest of the business, thus prompting management to stop monitoring after a certain period. Even though we support disclosing the reasons for not monitoring an acquisition anymore, we suggest the IASB to undertake a study in order to determine whether stopping monitoring 2 years after the acquisition is representative of current practice.
- (14) In addition, we also support the IASB’s requirement to disclose the new metrics and the reasons for the change if management changes the metrics it uses to monitor whether the objectives of the acquisition are being met.
- (15) We suggest the IASB permits these disclosures to be provided either in the notes to the financial statements or, in case this information is already presented elsewhere and is available to users on the same terms and time as the financial statements, by cross reference to some other statement such as the management commentary. We note that some of this information may be best placed in the management commentary due to its forward looking and a non-financial nature.
- (16) In addition, the Board should also consider the impact of audit for these proposals. Auditing can result in more discipline in preparing the information to be disclosed, especially if such information is included within the notes to the financial statements. However, we highlight that there are costs associated to this audit (for preparers) as well as it could be difficult to obtain reasonable assurance on forward looking information and management’s expectations.
- (17) To conclude, we suggest the Board field tests these proposals with users and preparers as they consist of new disclosure requirements. This will help preparers understand how to prepare this information and will help the Board understand what information is actually monitored by management and available for disclosure and resultantly, if the proposals meet the objective and provide users with more useful information for the acquisition.

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?

- (18) Accountancy Europe understands that disclosures about the benefits expected from the acquisition would help investors understand the rationale behind the price. However, such information may sometimes be commercially sensitive, as noted in paragraph 5 of our response.
- (19) In addition, we note that disclosures about the extent to which an acquisition is meeting management's objectives may result in boilerplate disclosures. We suggest the Board to consider this item in conjunction with the preliminary views expressed in paragraph 2.45b) of the DP.

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?

- (20) Accountancy Europe agrees that the synergies disclosures as per paragraph 2.64 of the DP, help users to better understand the potential impact of a business combination on the combined financial statements, while striking a reasonable balance with preparers' concerns for commercially sensitive disclosures.
- (21) However, paragraph 2.65 of the DP suggests that this proposal is for all transactions with 'material' synergies, and not only those that the CODM reviews. This is not consistent with proposed disclosures in the other parts of the DP (e.g. paragraph 2.10 of the DP), for which we have provided our comments in paragraphs 7 – 10. In this respect, we suggest the IASB to better align these proposals.
- (22) In terms of cost benefit considerations, we suggest the Board provides an exemption for disclosing amounts and costs of synergies if such information is not readily available. Therefore, preparers would be expected to disclose such information only if it has been gathered in the deal process.
- (23) In addition, we suggest the IASB clarifies the intended basis of the information to be disclosed: a standardized approach or a management approach. If a standardized approach is followed, requirements should be as specific as possible, including:
- a. defining 'synergies'
 - b. specifying whether 'estimated amount or range of amounts of the synergies' relates to synergies in total or to each type of expected synergy
 - c. clarifying if a detailed pattern of synergy realisation by type (or in total) or simply a timeframe by type (or in total) should be disclosed.
- (24) In addition, we suggest the IASB specifies whether these disclosures should be based on management's synergy expectations in the deal process or after closing of the transaction. While

synergy expectations initially included in the deal model will explain better the agreed purchase price, the synergy expectations as of closing might be a better benchmark to assess the subsequent realization of synergies, and thus performance of the acquisition.

- (25) We also suggest that the IASB considers proposing disclosures of subsequent changes in the initial synergy expectations as these may be useful for assessing the performance of an acquisition and are interrelated with disclosures on monitoring (please refer to paragraphs 7 – 10 of our response).
- (26) Even though we understand that investors seek information about synergies (as part of goodwill) in order to justify the price for the acquisition, we note that expected synergies do not necessarily reconcile to or explain in full the consideration transferred and goodwill. Expected synergies are not necessarily a subtotal of goodwill; they may be greater than the respective element in goodwill.
- (27) We also suggest the Board specifies whether disclosures on other goodwill components paid for (i.e. workforce or going concern element) as per paragraph 2.68 of the DP, should be qualitative or quantitative. Price (as a result of negotiations) usually differs from value; therefore, the Board should also clarify if/how disclosures of goodwill components acquired reconcile to goodwill/consideration transferred.
- (28) Furthermore, we note that preparers might be reluctant to provide quantitative information because putting a price on some of the components may be challenging.
- (29) Finally, we support the Board's proposal to specifically disclose certain major classes of assumed liabilities. This information is already an integral part of the deal reporting, therefore, there should be no additional costs on preparer side, while providing useful information for investors.

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?*

- (30) Accountancy Europe supports retaining the requirement to prepare the pro forma information as this would help investors understand the annual impact of the business and facilitate annual analysis. However, we suggest the IASB provides more guidance on how to prepare this proforma information as well as to consider requiring preparers to disclose the basis of preparation. These would help preparers and would improve consistency and auditability.
- (31) We agree with the Board's preliminary view to replace the term 'profit or loss' with the term 'operating profit before deducting acquisition-related costs and integration costs' as per paragraph 2.77a) of the DP. However, we suggest the Board do define or provide guidance on what entails 'acquisition-related costs' and 'integration costs' in order to ensure comparability.
- (32) Finally, we support adding a requirement to disclose cash flows from operating activities as provided in paragraph 2.77b) of the DP, as such information helps investors in their cash flows analysis.
- (33) However, we note that the Board's preliminary views in paragraph 2.45, 2.90 and 2.91 of the DP when considered together with the current IFRS 3 requirements may be voluminous, and costly for preparers. Therefore, we suggest the Board reviews the existing and proposed disclosure requirements and removes information that is not useful to investors. This could be done during field testing the proposals of the Exposure Draft General Presentations and Disclosures (PFS ED) in order to be efficient in the process that follows this DP.

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.

- 1. 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?*
 - 2. 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?*
 - 3. 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?*
 - 4. 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?*
- (34) Accountancy Europe agrees that it is not feasible to design a significantly more effective impairment test as part of this project which does not include a comprehensive revision of IAS 36.
- (35) Despite the challenges of the cash-generating units (CGU) concept, it is questionable whether a direct testing for goodwill impairment would be feasible for the following two reasons. Firstly, goodwill is a residual and as such cannot be measured separately from the business it relates to. Secondly, goodwill is composed of acquired goodwill and internally generated goodwill which cannot be separated for purposes of testing the acquired component only. Therefore, we suggest the IASB undertakes broader research on IAS 36, including a comprehensive review focusing on the CGU and impairment testing concept.

- (36) Accountancy Europe agrees that over-optimism and ‘shielding’ are important reasons for the concerns about goodwill impairment losses. Even though ‘shielding’ cannot be completely avoided due to the CGU concept and the indirect testing, there are different aspects to be considered concerning “too optimistic” estimates. These include the inherent estimation uncertainty, the incentive effect of the business plan, management bias, window dressing, and the key significance of the last planning period for the terminal value cash flow (one of the main drivers for the recoverable amount in a discounted cash flow model).
- (37) Finally, we do not support the Board’s view that over-optimism should only be dealt with by auditors and regulators because different aspects of over-optimistic estimates (see paragraph 36) are also the responsibility of preparers. Therefore, there is information asymmetry between the parties which usually does not allow enforceable corrections to a business plan beyond technical or obvious mistakes.

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?*
- (38) Accountancy Europe recognises that there are benefits and challenges to both the impairment-only model and the amortisation model for the subsequent accounting for goodwill (see [Annex 3](#) which summarises arguments made throughout the years from different organisations supporting and criticising each model). Therefore, we do not express a preference for either model.
- (39) Reintroducing amortisation would help resolve some concerns on goodwill impairment (refer to paragraph 36) as it takes pressure off the impairment test. However, this is not a sufficient reason for us to express a preference on the subsequent accounting for goodwill model.

- (40) In our view, acquired goodwill differs from goodwill subsequently generated internally in the same CGU in these aspects:
- measurement: acquired goodwill is calculated as a residual and is composed of different elements than those that would be included in the valuation of internally generated goodwill
 - composition: acquired goodwill includes elements (e.g. deferred taxes, overpayments) that are not part of internally generated goodwill (which results from business activities)
- (41) Finally, we understand that determining the useful life of goodwill would be challenging in case amortisation of goodwill is reintroduced. We note that it would also be challenging to transit from one method to the other, especially considering the significant goodwill amounts in balance sheets. The IASB should consider the feedback received from respondents who favour reintroducing amortisation in order to understand how to determine the useful life of goodwill. In case a standardised useful life is used as a rebuttable presumption, we suggest consulting with preparers in determining this ‘cap’.

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?

- (42) Accountancy Europe does not support the Board’s preliminary view to develop a proposal to require companies to present on their balance sheets the amount of ‘total equity excluding goodwill’.
- (43) We believe that the purpose and benefit of this proposal are unclear because:
- (i) The figure can be computed easily, especially when considering the proposals under the IASB’s Exposure Draft - General Presentation and Disclosures (Primary Financial Statements) (PFS ED). Based on the PFS ED, goodwill shall be required to be presented as a separate line item in the balance sheet. This is often the case even today where the goodwill item is presented as a separate item either on face of the statement of financial position or in the notes.
 - (ii) If considered in conjunction with the respective proposals of the PFS ED, we do not think that this amount results in useful information. Indeed, we are concerned on how the resulting (artificial) figure will be interpreted.
 - (iii) Subtracting goodwill from equity might suggest that goodwill is not as “reliable” an asset as the other assets recognized, contradicting the accounting and casting further doubt on the reliability and usefulness of the impairment test. In the worst-case scenario, it may even cast doubts on whether it meets the asset definition under IFRS.
- (44) Notwithstanding our comments in paragraphs 42 - 43 of our response, we have supported presenting a single line item in the statement of financial position as per the PFS ED (see our response to the IASB’s PFS ED and the respective EFRAG DCL [here](#)).

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?*

(45) Accountancy Europe does not support the Board’s preliminary view to remove the requirement to perform a quantitative impairment test for goodwill as well as for intangible assets with indefinite useful lives and intangible assets not yet available for use because:

- (i) useful information would be lost (e.g. regular disclosure of discount rates, growth rates and key assumptions as required by paragraph 134 of IAS 36)
- (ii) the annual test prompts management to assess cash generated processes within the business, promoting good stewardship (this is also a strong reason to retain the impairment model for subsequent accounting for goodwill)
- (iii) it further undermines the robustness of the impairment testing process, including triggering events testing (see paragraph 48 of our response)
- (iv) the cost benefit considerations, which are the main driver for this proposal, should be reassessed as noted in paragraph 47 of our response.

(46) We point out that paragraph 99 of IAS 36 already allows relying on the most recent goodwill impairment test in limited circumstances, provided there was considerable headroom in the past. However, this simplification does not seem to be working in practice. Therefore, we suggest the IASB to try to understand why this is the case and examine how this simplification could be strengthened. This would support the objective to lower costs of impairment testing without removing the annual test.

(47) In addition to supporting the annual test, we would like to outline that the indicator-based approach may not necessarily result in cost benefits because:

- (i) Qualitative trigger testing would gain considerably more prominence and thus would need a robust and supportable analysis and documentation. This might be a costly exercise, especially in the first periods and when considering additional assurance costs.
- (ii) The triggers in IAS 36 are not sufficiently robust and specific as to use them as a “gatekeeper”. Under the current rules, this was tolerable because the annual test provided discipline over the process. Therefore, we suggest improving guidance on identifying impairment indicators.

- (iii) If no quantitative test is performed and thus the current disclosures in paragraph 134 of IAS 36 do not apply, comprehensive (new) disclosures concerning the qualitative trigger testing would be reasonable and provide useful information. This might further increase costs.
- (48) Accountancy Europe agrees that the proposals may make the impairment test significantly less robust because:
- (i) there is a risk of losing valuation expertise, especially for preparers
 - (ii) it will be more difficult for both preparers and auditors to assess the reasonableness of the current set of assumptions and input factors of an impairment test performed for the first time after several years, since there will be no history of quantitative information against which to benchmark the test
 - (iii) management would have to exercise more judgement in identifying indicators of impairment. For this purpose, the Board should revise the list of indicators in paragraph 12 of IAS 36.
- (49) Finally, we consider this proposal to be closely linked with the subsequent accounting for goodwill model. Therefore, in case the Board maintains its preliminary view of retaining the impairment model, we suggest also retaining the annual quantitative impairment test. However, the cost-benefits of this proposal could be reevaluated if the Board decides to reintroduce amortisation.

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.*

- (50) Accountancy Europe agrees with these proposals as both would reduce costs and susceptibility of the impairment test to errors, without compromising the decision usefulness of the information provided.
- (51) In terms of the proposal in paragraph 4.43 of the DP, excluding cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance, is artificial and is done solely for the purposes of impairment testing. It does not represent business reality or the corporate planning process. An alignment of the cash flows used in the impairment test and corporate planning would enhance consistency with other information provided (e.g. in the management commentary).

- (52) However, we point out that we support this proposal as our interpretation of the scope is broad: other cash flows (e.g. in view of an expansion or enhancement) shall also be allowed in the value in use (ViU) calculation if they improve the capacity in a CGU. However, we have noted that the current wording may be subject to different interpretations and may be read as limited only to the cash flows listed. Therefore, we suggest the IASB to improve the wording in order to avoid such narrow-scoped interpretations.
- (53) In terms of the proposal in paragraph 4.53 of the DP, we agree using post-tax data because pre-tax calculations are not feasible. However, we suggest that the Board specifies the meaning of “post-tax” in order to avoid any new diversity in practice (e.g. concerning the treatment of deferred tax assets on tax loss carryforwards in the impairment test). To this end, we would appreciate it if the IASB clarifies how this proposal aligns with IAS 12 *Income Taxes*.
- (54) Even though the removal of these restrictions would result in a high convergence of ViU and fair value less costs of disposal (FVLCD) in practice, we suggest retaining the “higher of” concept. The ViU allows in the inclusion of entity-specific synergies, better assesses “for keeping”, and is more easily documented. Furthermore, there may be differences between the two in cases where the fair value is observable (e.g. a listed subsidiary).
- (55) Accountancy Europe believes that there is enough discipline as currently required by IAS 36. The standard already requires projections to be based on the most recent budgets approved by management. This should prevent the inclusion of cash flows that cannot be substantiated at all, no matter what they specifically relate to.

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?*

- (56) Accountancy Europe does not support the first proposal as per paragraph 4.55a) of the DP to add more guidance on the difference between entity-specific inputs used in ViU and market-participant inputs used in FVLCD. We think that the current guidance is already comprehensive and that the problem is more with the practical application of the guidance.
- (57) In terms of the second proposal in paragraph 4.55b) of the DP, we think that the reduction to one method only option should not be pursued, as noted in paragraph 54 of our response.
- (58) We do not support the alternative to require a company to select the method of management’s intent of recovery either. We note that it may be difficult to operationalise relevant criteria in case the intent is to dispose of the asset(s) but the criteria in IFRS 5 *Non-current assets held for sale and discontinued operations* (IFRS 5) are not met.
- (59) We do not support the third proposal of paragraph 4.55c) on allowing companies to test goodwill at the entity level or at the level of reportable segments as this would worsen the shielding problem.

- (60) Finally, we would appreciate more guidance on identifying CGUs and on allocating goodwill to CGUs as considered in paragraph 4.55d) of the DP. This would further simplify and improve the effectiveness of the impairment test. To this end, we suggest leveraging the proposed disclosures on synergies for also refining the requirements for goodwill allocation to CGUs.

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?*
- (61) Accountancy Europe agrees with the Board’s preliminary view not to develop a proposal to allow some intangible assets to be included in goodwill because a comprehensive revision of accounting for internally generated or acquired intangible assets is not in the scope of the current project.
- (62) We think it would be a false signal not to account for recognisable acquired intangible assets separately considering the ever-increasing importance of intangibles in today’s business models. Investors want to be able to better compare companies that grow through acquisitions and those that grow organically.
- (63) As per the above, we suggest the IASB undertakes a comprehensive project on IAS 38 *Intangible Assets*.
- (64) In addition, subsuming certain intangibles in goodwill would further inflate goodwill balances, making their interpretation even more difficult and aggravating the problems that triggered the DP, in particular (but not only) in case amortization will not be reintroduced.
- (65) Furthermore, we think that the benefits of the information provided by current practice outweigh the costs. The recognition and measurement of intangible assets in a purchase price allocation can be complex and costly, depending among others on the size of the transaction and the business model. However, nowadays purchase price allocations follow established rules that are commonly accepted by both valuation experts and the accounting profession.
- (66) We also point out that a robust purchase price allocation process and documentation automatically generates a lot more information than an entity is currently required to disclose. This includes information on acquired intangibles (e.g. the leading intangible asset, their useful life), how the internal rate of return compares to the cost of capital, which if disclosed may provide investors with more useful information on acquisitions. Nonetheless, we recognise that this information may be commercially sensitive. Therefore, if the IASB decides to pursue this idea, it is important to strike a balance between the usefulness of this information to investors and commercial sensitivity concerns of preparers.
- (67) Finally, our view would not change if amortisation of goodwill is reintroduced (please refer to the comments in paragraphs 38-41).

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?

- (68) Accountancy Europe has always supported globally converged reporting standards as necessary to improve comparability and transparency in global markets. Therefore, we suggest the IASB and FASB to collaborate during these projects and aim for converged proposals.

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?

- (69) As noted in paragraphs 17 and 33 of our response, many of the proposals of the Board consist of new disclosure requirements or changes to current practices. Therefore, we suggest the Board field tests these proposals in order to understand if the proposals provide users with more useful information for the acquisition whilst not being unduly costly for preparers. Ultimately, such field testing might better help the Board assess to what extent the general objective of the DP would be met in practice.

ANNEX 2: EFRAG'S DRAFT COMMENT LETTER – QUESTIONS FOR RESPONDENT

Hereinafter, we are pleased to provide our detailed responses to the questions posed by EFRAG. Notwithstanding the fact that the following responses are related to specific EFRAG questions, we invite the IASB to consider these in preparation of any forthcoming exposure draft.

Question (Paragraph 54) – (IASB Question 2)

As stated above, EFRAG considers that the disclosures proposed in the DP could provide useful information. EFRAG has, however, not yet formed a view on whether the financial statements are the right place to disclose information about the performance of an acquired business compared with management expectations. Among other things, it might be difficult to audit the information if Standards do not provide guidance on how the non-GAAP metrics should be determined.

- (a) *Do you agree with the IASB's proposal to include the proposed information in the notes to the financial statements? Why/why not? If you disagree with the IASB, do you think it could be included in the management commentary?*
- (b) *Do you think that the specific information would be more useful, relevant and/or reliable, if it is audited?*
- (c) *Do you think it would be possible to audit the information/prepare the information in a manner that would make it possible to audit it?*

- (70) Please refer to the comments in paragraphs 3-17 of our response.

Question (Paragraph 55) – (IASB Question 2)

Paragraph 42 above states that EFRAG expects that the requirement to disclose that an entity is not monitoring an acquisition could create a market discipline. If you are a user of financial statements, how would it affect your analysis if you receive information that an entity is not monitoring a significant acquisition?

- (71) No comment provided.

Question (Paragraph 56) – (IASB Question 2)

The IASB considers that it is possible to disclose useful information on the level of achievement of the financial or non-financial targets initially defined at acquisition date and of expected synergies (see Question 4 below), without triggering commercial sensitivity. EFRAG is interested in understanding whether constituents agree with this approach and would like to receive practical examples in this regard.

- (72) Please refer to the comments provided in paragraph 5 of our response.

Question (Paragraph 57) – (IASB Question 2)

Would there be any constraints within your jurisdiction that could affect an entity's ability to disclose the information proposed in the DP? If so, what are those constraints and what effect could they have?

- (73) To our knowledge, there are no such constraints.

Question (Paragraph 97) – (IASB Question 5)

In paragraph 85 above, the preliminary view of EFRAG is reflected that pro forma information should be presented in the notes to the financial statements on revenue and a profit measure (see paragraphs 88 - 93) of the combined business for the current reporting period, as though the acquisition date had been as of the beginning of the annual reporting period. Do you agree with EFRAG's preliminary view to retain such a requirement? If not, please explain.

- (74) As noted in paragraph 30 of our response, we agree with retaining the pro forma information requirement.

Question (Paragraph 98) – (IASB Question 5)

In paragraph 95 above, EFRAG questions the usefulness of disclosing 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. Would you find the suggested information useful? Please explain.

- (75) Please refer to paragraphs 31 - 32 of our response.

Question (Paragraph 99) – (IASB Question 5)

As a next step in this project, the IASB intends to investigate whether it could remove any of the disclosure requirements from IFRS 3 without depriving investors of material information (IASB DP Paragraph 2.88).

Do you have specific input on this topic?

- (76) Please refer to paragraph 33.

Question to preparers: costs of the disclosures (Paragraph 100) – (IASB Questions 2 - 5)

As mentioned in paragraph 89 above, EFRAG is unsure about how costly it will be to prepare disclosures on how performance figures would have been without the effects of the purchase price allocation (including revaluation to fair value of most of the acquired business' assets and liabilities). Do you assess that this information would be costly to preparer? Please explain.

- (77) No comment provided.

Question to preparers: costs of the disclosures (Paragraph 101) – (IASB Questions 2 - 5)

As mentioned in paragraph 89 above EFRAG seeks input on the costs to prepare the information about 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, in particular when the acquired business is fully integrated and does not prepare separate accounts.

(78) No comment provided.

Question to preparers: costs of the disclosures (Paragraph 102) – (IASB Questions 2 - 5)

In general (ref. to Questions 2 to 5): EFRAG is also interested in receiving preparers' inputs on the operational implications (e.g. quality of data, internal control and auditability) of these disclosures and their costs.

(79) No comment provided.

Question (Paragraph 136) – (IASB Question 6)

Do you agree that the IASB should consider improving guidance on allocation and reallocation of goodwill to cash generating units as this would improve the discipline in the application of impairment testing in practice? Do you see such improved guidance in connection with better information about business combinations as a basis for a better assessment on whether there is any indication for impairment?

(80) Please refer to paragraph 60 of our response.

Question (Paragraph 137) – (IASB Question 6)

Do you think that the benefit from changing such guidance would outweigh costs? Would there be significant additional costs?

(81) No comment provided.

Question (Paragraph 138) – (IASB Question 6)

Do you agree with the IASB's view that management over-optimism is best addressed by auditors and regulators, not by changing IFRS Standards? Please explain why.

(82) Please refer to paragraph 37 of our response.

Question (Paragraph 139) – (IASB Question 6)

To address management over-optimism, EFRAG suggests that the IASB considers developing possible disclosure solutions for a better transparency of the estimates made or their achievement. EFRAG considers that the possible approaches below, or a combination of them, could provide more transparency and more discipline in relation to being over-optimistic by the management. Such a requirement will allow users to make a better assessment of the estimations made by management to calculate the recoverable amount. EFRAG notes that such possible requirements could help in identifying events that trigger impairment. Furthermore, as a consequence of being generally overoptimistic over a certain period (e.g. five years) impairment test or additional disclosure requirements (like disclosing recoverable amount calculated on actual basis) could be discussed. Therefore, EFRAG is asking constituents' view on the usefulness and practicability of the following suggestions:

(a) Historical estimations to allow assessment of over-optimism

Similar to the disclosure requirements suggested in the DP addressing whether objectives of acquisitions have been met, a disclosure requirement could be introduced on how the management's cash flow predictions differ from the obtained cash flows. This could make it transparent whether the management is over-optimistic. Most useful in this regard would be assessment of target achievement on a mid-term basis for more than the respective

preceding year (e.g. assessment of the last prior three years of the mid-term assumptions by comparing projections to the actuals achieved). Such information about achievement of prior projections could be given on a qualitative or quantitative basis.

- (b) *Improve information on assumptions over the period for which management has projected cash flows based on financial budgets*

Another possible approach could be to improve the usefulness of the midterm period information as required by IAS 36 paragraphs 134(d)(ii) or 134(e)(ii) as the recoverable amount is driven by assumptions taken to reach a terminal value. According to IAS 36 paragraph 134, an entity has to provide information about the method of estimation of cash flows but not the specific growth rate within the period over which management has projected cash flows based on financial budgets/forecasts. Such growth rate has to be specified only for the terminal value. Requiring disclosure of how the growth rate in the terminal value compares to the current growth rate (e.g. increased by 30%) or to disclose the level of profit margin applied when going into the terminal value could make management estimations transparent and allow users to make their own judgement, especially as such a level of cash flows reached forms the basis of the terminal value and thus the major part of the recoverable amount of the CGU.

- (c) *Current level of cash flows/margins or earnings*

Lastly, a requirement could be introduced to provide quantitative information of the present performance, present relevant margins or current cash flows and therefore give information to the users to do estimations and projections themselves. That information could be used to assess whether a recoverable amount is in question and to give transparency to estimation uncertainty. Furthermore, this approach would avoid any discussion about disclosing forward looking information.

- (83) We appreciate EFRAG's efforts to address management over-optimism, however, we note that these are mainly implementation issues which should be addressed by better application rather by standard setting.

Question (Paragraph 140) – (IASB Question 6)

Do you consider additional disclosures in relation to estimates used to measure recoverable amounts of cash-generating units containing goodwill is necessary as suggested above? Could those suggested disclosures provide more transparency and more discipline in relation to being over-optimistic by the management? If so, which option in paragraph 139 do you consider best addressing the management over-optimism issue and provide more transparency and more discipline:

- (a) *achievement of previous estimations (make over-optimism transparent);*
(b) *information on assumptions related to the period for which management has projected cash flows based on financial budgets;*
(c) *to disclose the current level of cash flows/earnings to allow users to model themselves.*

- (84) Please refer to our comments in paragraph 83.

Question (Paragraph 141) – (IASB Question 6)

Do you consider that the options listed are feasible and practicable for preparers and provide useful information for users? Please explain your response and explain whether you prefer a combination of them, or whether you consider that other qualitative information could be required.

- (85) Please refer to our comments in paragraph 83.

Question (Paragraph 142) – (IASB Question 6)

Do you consider it necessary to introduce consequences like discussed in paragraph 120 for those that are generally overoptimistic?

- (86) Please refer to our comments in paragraph 83.

Question (Paragraph 165) – (IASB Question 7)

*EFRAG would welcome constituents' views and arguments to the IASB questions listed in Question 7 of the DP. **EFRAG is particularly interested in learning whether any new evidence or arguments have emerged since 2004.***

- (87) Accountancy Europe has not expressed a specific preference for either models for the subsequent accounting for goodwill, as noted in paragraphs 38 – 39 of our response.

Question (Paragraph 166) – (IASB Question 7)

When looking for new evidence and impact analyses, EFRAG invites you to also refer to other areas of regulation that may provide indirect incentives to prefer one or the other approach, such as tax deductibility of goodwill or prudential treatment of goodwill in case of regulated entities.

- (88) We point out that tax treatment considerations should not be a driver in expressing a preference for either models to the subsequent accounting for goodwill or in standard setting more generally.

Question (Paragraph 167) – (IASB Question 7)

Two of the different arguments in favour of amortisation included in paragraphs 156 and 159 above are that:

- (a) Goodwill is a wasting asset; and*
- (b) Goodwill is an accounting construct, which is not useful to have on the statement of financial position.*

Do you think that goodwill (or some of the parts goodwill consists of) is (are) a wasting asset(s)? Do you consider goodwill to be an accounting construct that it is not useful to have recognised in the statement of financial position? Please explain.

- (89) As noted in paragraphs 38 – 39 of our response, we have not expressed a preference for either models for the subsequent accounting for goodwill. However, in Annex 3 we acknowledge different views for each of these models.
- (90) Nonetheless, as noted in our [response](#) to the IASB's PFS ED and the respective EFRAG DCL, we support presenting goodwill as a single line item in the statement of financial position.

Question (Paragraph 168) – (IASB Question 7)

Paragraph 163 states that goodwill impairment losses are often added back when entities are presenting "underlying profit" (or similar non-GAAP measures). If amortisation were to be reintroduced, do you think that companies would adjust or create new management performance measures to add back the amortisation expense? Why or why not?

(91) No comment provided.

Question (Paragraph 169) – (IASB Question 7)

If amortisation is not reintroduced, do you consider that it would be useful to require companies to disclose information about the “age” of goodwill to reflect which part of their goodwill is older (and thus, by some is considered to be less relevant)?

(92) No comment provided.

Question (Paragraph 197) – (IASB Question 9)

EFRAG has illustrated in the paragraphs above the implications of and concerns about the adoption of an indicator-only approach. The IASB has received the feedback that the impairment test is considered to be complex by many preparers. Accordingly, some stakeholders considered that if companies do not perform an impairment test regularly, their expertise in performing the test is likely to decline. Thereafter, it could be difficult for preparers to execute the complex test in a situation where impairment is triggered. This could further reduce the effectiveness of the impairment test and the confidence in the reliability of the test. Do you agree with this feedback and with the concerns expressed above? If so, what measures could be taken to mitigate this issue? If not, why not and how audit evidence is reached without a yearly impairment test?

(93) Accountancy Europe agrees with EFRAG’s feedback. In addition, we do not support the Board’s preliminary view to develop proposals to remove the requirement to perform a quantitative impairment test for goodwill as well as for intangible assets with indefinite useful lives and intangible assets. For further comments, please refer to paragraphs 45 – 49 of our response.

Question (Paragraph 217) – (IASB Question 10)

The DP suggests removing the restriction that prohibits companies from including cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset’s performance. Do you think that there are other cash flows (inflows and outflows) that should also be allowed to be included in the value in use calculation (e.g. cash flows from investments that could increase the production capacity for a group of assets that are part of the same cash generating unit)?

(94) Please refer to paragraphs 51-52 of our response.

Question (Paragraph 218) – (IASB Question 10)

Post-tax input for the calculation of value in use of a cash generating unit might, unless otherwise specified, take into account items such as unused tax loss carryforwards which would not meet the criteria for recognition under IAS 12 Income Taxes (and would accordingly not be included in the carrying amount of a cash generating unit). Potentially this could result in a goodwill impairment loss not being recognised when post-tax inputs are used, that would have been recognised had pre-tax inputs been used. Do you consider this risk to be significant? Do you think that it should be explicitly required that when post-tax inputs are used, this input should be aligned with the principles of IAS 12? Do you think there are other ways to deal with the issue?

(95) Please refer to paragraph 53 of our response.

Question (Paragraph 219) – (IASB Question 10)

In addition to the issue described above in paragraph 218, do you think that there are other issues or risks that could arise from the use of post-tax inputs in the value in use calculation?

- (96) We cannot think of any further risks that could arise from using post-tax inputs in the ViU calculation.

Question to constituents that are users of financial statements (Paragraph 239) – (IASB Question 12)

Would you be in favour of including some of the intangible assets acquired in a business combination that are currently recognised separately in goodwill?

- (a) *If yes, under which circumstances would you include in goodwill, intangible assets acquired in a business combination that are currently recognised separately?*
- (b) *If no, how do you currently use the information about intangible assets acquired in a business combination that are currently recognised separately?*

- (97) Please refer to paragraphs 61 – 67 of our response.

Question (Paragraph 258 - 261) – (IASB Question 14)

Paragraph 19 of IAS 12 states that “[w]ith limited exceptions, the identifiable assets acquired, and liabilities assumed in a business combination are recognised at their fair values at the acquisition date. Temporary differences arise when the tax bases of the identifiable assets acquired, and liabilities assumed are not affected by the business combination or are affected differently. For example, when the carrying amount of an asset is increased to fair value but the tax base of the asset remains at cost to the previous owner, a taxable temporary difference arises which results in a deferred tax liability. The resulting deferred tax liability affects goodwill.”

This means that a portion of goodwill may result from the effects of deferred tax liabilities. This portion of goodwill does not represent the “core goodwill”, i.e. the fair value of the going concern element of the acquiree’s existing business and the fair value of the expected synergies and other benefits from combining the acquirer’s and acquiree’s net assets and businesses (see BC313-BC318 of IFRS 3). This portion of goodwill is only due to an accounting mismatch arising from the fact that deferred taxes are not recognised at fair value in business combinations.

It may be argued that, after the business combination, the portion of goodwill resulting from the effects of deferred tax liabilities should be reduced over time (i.e. reversed to P&L) to reflect the reduction of the deferred tax liabilities that originated that portion of goodwill.

Is the portion of goodwill resulting from the effects of deferred tax liabilities significant compared with the goodwill recognised in your financial statements/in your jurisdiction (e.g. >10% of recognised goodwill)?

- (98) No comment provided.

Question (Paragraph 262) – (IASB Question 14)

Would you support a change in the goodwill accounting (along the lines of paragraph 260 above), such that the portion of goodwill resulting from the effects of deferred tax liabilities, is subsequently measured at an amount that reflects the deferred tax liabilities that originated that portion of goodwill? Please explain. The IASB is proposing in this DP to allow for the adoption of post-tax inputs for the calculation of the value in use. How would such a proposal interact with the issue described in the above paragraphs (i.e. goodwill originated by an accounting mismatch due to effect of deferred tax liabilities)? Please explain.

- (99) Even though we understand the mismatch on goodwill accounting as a result from deferred taxes, we do not support changing the current accounting for goodwill.

Question (Paragraph 263) – (IASB Question 14)

Would you anticipate other tax implications from the proposals in the DP?

- (100) No comment provided.

Question (Paragraph 264) – (IASB Question 14)

Should the IASB consider introducing reversal of goodwill impairments in general and specifically in the case of impairment losses recognised in an interim period (see paragraphs 255-257)? If yes, please specify why and under which circumstances.

- (101) Accountancy Europe understands that goodwill impairment reversals would be consistent with other intangible assets and may help take off some pressure from the impairment test. However, we consider that the conceptual reasons for not allowing reversals of goodwill impairment as per the Basis for Conclusions of IAS 36 *Impairment of Assets* still stand.
- (102) In addition, we note that similarly to other assets, in practice goodwill impairment reversals may not be widely used. Therefore, we question whether in practice, it would address the problems with the impairment test.
- (103) Resultantly, we do not support introducing reversals of goodwill impairment.

ANNEX 3: SUMMARY OF ARGUMENTS IN FAVOUR AND AGAINST FOR THE MODELS ON SUBSEQUENT ACCOUNTING FOR GOODWILL

The table below summarises different arguments in favour and against for the impairment-only model and the amortisation model for the subsequent accounting for goodwill. These are current arguments made by different organisations, as respectively referenced.

| Reference | Impairment-only method | | Amortisation method | |
|--|--|--|---|--|
| | In favour | Against | In favour | Against |
| IASB Discussion Paper (DP) Business Combinations – Disclosures, Goodwill and Impairment (2020) | It helps holding management accountable. | <ul style="list-style-type: none"> Over-optimism and shielding result in ‘too little too late’ impairments. The impairment test is not working as originally intended. The impairment test value is limited to being confirmatory. Non-amortisation incentivises managers to record higher goodwill amounts. | <ul style="list-style-type: none"> It would be simpler and would reduce costs. Goodwill is a wasting asset with a finite useful life. Amortisation would hold management to account more effectively than the impairment test as company would need to generate profits to recover that expense. | <ul style="list-style-type: none"> Investors would not consider amortisation in their analysis. Amortisation could further shield goodwill from impairment. There are difficulties in estimating the useful life. It would not reduce costs. |

| Reference | Impairment-only method | | Amortisation method | |
|---|------------------------|---|---|---|
| | In favour | Against | In favour | Against |
| IASB Staff paper: Goodwill and impairment project Reintroduction of amortisation of goodwill (2019) | | There are enforcement and audit quality concerns. | <ul style="list-style-type: none"> • It targets goodwill in isolation. • IASB already concluded for <i>IFRS for SMEs</i> that the model is appropriate from a cost-benefit perspective (at least in some situations). • Any information loss from disclosures would be addressed by new disclosure requirement with the model. • Goodwill should reduce as future benefits are either received or reduced in time. • It would enable consistency between entities that grow organically and those through acquisition. | <ul style="list-style-type: none"> • The model makes it difficult to assess stewardship. • Reintroduction of amortisation may lower the quality of information provided. • Amortisation risks mislabelling impairment losses as consumption. |
| IASB Staff paper: Goodwill and impairment project Cover Paper, includes feedback from the 2015 Agenda Consultation (2016) | | | A separate accounting for goodwill than that of other intangibles is arbitrary. | |

| Reference | Impairment-only method | | Amortisation method | |
|--|--|--|--|--|
| | In favour | Against | In favour | Against |
| IASB Staff paper: Goodwill and impairment project Subsequent accounting for goodwill (2016) | It helps verify if an acquisition is going as planned. | | | It shifts focus from the impairment test problems, which still need to be addressed. |
| ASBJ, HKICPA Research Paper Goodwill: Improvements to Subsequent Accounting and an Update of the Quantitative Study (2020) | | <ul style="list-style-type: none"> The current method is pro-cyclical: low interest rates, easy credit, and aggressive deal making may drive a larger number of acquisitions and higher acquisition prices, and vice versa. It incentivises managers to value acquisitions highly and ignore/delay subsequent expense. | | |
| ASBJ: Goodwill and impairment project Possible Approach for Addressing the “Too Little, Too Late” Issue (2017) | | | It allows management to explain business combination results using profit or loss that deducts amortisation. | |
| ASBJ Research paper 1: Amortisation of goodwill (2015) | | | Amortisation provides an indication on the payback of investment. | |

| Reference | Impairment-only method | | Amortisation method | |
|--|--|---|--|--|
| | In favour | Against | In favour | Against |
| ASBJ Research paper 2: Quantitative study on goodwill and impairment (2016) | | Amounts of goodwill during 2005 – 2014 have increased for all stock market indices, and sometimes exceed over 50% of net assets. | | |
| ASBJ Research paper 3: Analyst views on financial information regarding goodwill (2017) | | | <ul style="list-style-type: none"> The value of goodwill cannot be maintained permanently. Impairment losses better represent the failure in the investment after goodwill has been amortised. | Amortisation may make managers more hesitant to new investments. |
| ASBJ, EFRAG, OIC DP: Should goodwill still not be amortised? Accounting and disclosure for goodwill (2014) | The method provides information about key planning assumptions for each CGU. | <ul style="list-style-type: none"> It is difficult to challenge management on impairment assumptions. When the economy is in neither in recession nor expansion, the test is unable to identify entity-specific negative effects. | The method prevents recognising internal goodwill against ‘consumed’ goodwill. | Entities ignore goodwill amortisation in measuring performance. |

| Reference | Impairment-only method | | Amortisation method | |
|---|--|---|--|---------|
| | In favour | Against | In favour | Against |
| ASBJ, EFRAG, OIC Responses to DP “Should goodwill still not be amortised?” (2014) | This method provides useful information for ratios such as Return on Invested Capital or Return on Capital Employed. | <ul style="list-style-type: none"> It does not provide new information to the market, as the share price has already reflected impairment occurrence. Impairment only sometimes worsens the reporting entities already in losses. | There is less subjectivity and judgement in determining the useful life ¹ than there is for the current impairment model. | |
| ESMA Report: European enforcers review of impairment of goodwill and other intangible assets in the IFRS financial statements (2013) | | Only a few companies impaired even when their net assets exceeded market capitalisation. | | |

¹ Elements that could be considered for the useful life:

- the period over which the acquirer expects to earn excess return over the theoretical case of a standalone business
- the expected payback period
- useful life of a primary identifiable long-lived asset
- economic assumptions that were used to price the transaction
- type of industry (for example, hi-tech segments have a short life cycle of 3 to 5 years, while pharma has a longer cycle of 10 to 15 years).

| Reference | Impairment-only method | | Amortisation method | |
|--|---|---------|---|---|
| | In favour | Against | In favour | Against |
| <u>IVSC Paper 1: Is goodwill a wasting asset?</u> (2019) | <ul style="list-style-type: none"> The elements of “going concern” goodwill have an indefinite life. These include reputation (customer loyalty), future intangible value, workforce (knowledge is not wasting), synergies (created by the acquisition), assemblage value. IVSC concludes that goodwill is not a wasting asset. | | <ul style="list-style-type: none"> Synergies are realised only over a discrete period: Goodwill largely represents the synergistic value of an acquisition and that such synergies are realised, over a period, so the amortisation period can be estimated. Goodwill requires ongoing maintenance costs to maintain its value and indefinite life. But for such investment, goodwill would diminish over time, and amortisation rather than impairment testing is appropriate. | The two arguments in favour of the fact that goodwill is a wasting asset derive that there is systemic overpayment or that the CAPM model is incorrect. |
| <u>IVSC Paper 2: Information value of the current impairment test: Leading or lagging indicator?</u> (2020) | In some cases, impairment has proven to be a leading indicator (share price dropping after impairment announcement). | | | |

| Reference | Impairment-only method | | Amortisation method | |
|---|--|---|--|--|
| | In favour | Against | In favour | Against |
| EFRAG Board meeting 17 March 2020 Questions and tentative responses Issues Paper | | Impairments are used opportunistically (they take place when there is a change in management). | | <ul style="list-style-type: none"> Changing the method may impact decision making behaviours (e.g. the price of acquisition may increase). Entities amortising would be in disadvantage from those only impairing. |
| FASB Invitation to comment: Identifiable intangible assets and subsequent accounting for goodwill (2019) | Users think that the model confirms the existence of an underperforming acquisition. | <ul style="list-style-type: none"> Some investors do not consider impairment charges in analysis. As goodwill is infinite lived, impairment may represent cumulative amortisation not recognised. | The approach could be more verifiable as there are presumably controls and processes in place. | |
| AASB Perspective on IAS 36: A case for standard setting activity Summary of outreach results (2019) | | Relies on management assumptions that are not always consistent with everyday operations of the business. | | The purpose of acquiring goodwill was to support the growth of a business, and it cannot be presumed that this asset wears over time. |