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24 September 2014

Dear Chairmen,

Discussion Paper: *Should Goodwill still not be Amortised? Accounting and Disclosure for Goodwill*

Deloitte Touche Tohmatsu Limited is pleased to respond to the Discussion Paper *Should Goodwill still not be Amortised? Accounting and Disclosure for Goodwill* issued for comment by the Accounting Standards Board of Japan ('the ASBJ'), the European Financial Reporting Advisory Group ('EFRAG') and the Organismo Italiano di Contabilità ('the OIC').

We welcome the Discussion Paper's initiative to stimulate a discussion about the accounting and disclosure for goodwill at the same time as the International Accounting Standards Board ('the IASB') is undertaking its post-implementation review of IFRS 3 *Business Combinations*. The issue is important and has significant implications for both IFRS 3 and IAS 36 *Impairment of Assets*.

Whilst we recognise the conceptual merits of the current model of non-amortisation coupled with a full annual impairment test, its application imposes significant costs on the preparers of financial statements. Specifically, we continue to see a significant proportion of the resources for preparing and auditing financial statements of many entities devoted to the annual impairment review of both goodwill and indefinite-life intangible assets. Similarly, we are aware of concerns over the costs of identifying and

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valuing separate intangible assets.

We are not convinced that this level of cost is justified by the resulting information provided to users of financial statements. Clearly, information on forecast future cash flows is of interest to investors, but we do not believe that this interest is focused (as is the annual impairment review process) on the relationship between the present value of those cash flows and historic goodwill and intangible asset values.

On this basis, we would encourage the IASB to re-open its deliberations on these areas of business combination accounting and to re-examine the value of information provided by an annual impairment review of unamortised goodwill and indefinite-life intangible assets, particularly when those assets arose from a business combination several years ago and have been subsumed into the entity's ongoing operations where they may be 'buffered' by internally generated intangibles or goodwill that are not recognised in the financial statements. If this information does not merit the high costs of its production, the model should be revised accordingly.

We also note that, as evidenced by the Financial Accounting Standards Board's current project 'Accounting for Goodwill for Public Business Entities and Not-for-Profits' and its recent decision to permit private companies to amortise goodwill, the subsequent treatment of goodwill acquired in a business combination is currently under consideration in the U.S. We encourage national standard-setters, working through the Accounting Standards Advisory Forum (of which the ASBJ, EFRAG and the FASB are members) to address this issue with global convergence in mind.

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

Yours sincerely

Veronica Poole
Global IFRS Leader