BNP PARIBAS

CHIEF FINANCIAL OFFICER

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Comments on EFRAG's draft comment letter on IASB Discussion Paper on Business Combinations—Disclosures, Goodwill and Impairment ("DP")

We are pleased to provide BNP Paribas's comments on EFRAG's draft comment letter on the IASB Discussion Paper on Business Combinations – Disclosures, Goodwill and Impairment.

We recognise the efforts and work that the IASB and EFRAG have put into exploring whether companies can, at a reasonable cost, provide investors with more useful information on the acquisitions those companies make.

We consider that, while certain topics identified in the DP are interrelated, not all topics are dependent on each other. Accordingly, we do not see this as a package of proposals that are largely dependent on one another. We rather see the DP as a list of largely independent proposals and accordingly our answers to the proposals in the DP are also generally independent of one another.

Our main comments are as follows.

Disclosures

We have concerns with the proposed disclosure requirements, in particular those to disclose strategic rationales, objectives and metrics at the time of an acquisition and then subsequent actual performance against these metrics. We do not think the financial statements require the disclosure of this information because:

- Disclosing commercially sensitive information puts companies applying IFRS at a disadvantage to companies applying other accounting standards.
- Indeed, the equivalent FASB Invitation to Comment discussed similar disclosure proposals but on concerns similar to the ones we raise decided to take another road.

They consulted stakeholders on disclosing the facts and circumstances that led to goodwill impairment testing without giving rise to impairment loss. In addition, they asked for suggestions of other operable ideas about new or enhanced disclosures related to goodwill.

- The financial statements are not the appropriate place to provide information of strategic nature (e.g. management targets and subsequent performance against these targets). Indeed, this information would rather be disclosed in the management commentary or in other communication to investors outside of the financial statements. Moreover, this is already often the case today.

Making impairment test significantly more effective

We agree with the IASB that developing a more effective impairment test would not come on reasonable cost. Moreover, BNP Paribas reiterates the feedback previously expressed in our response to the 2017 EFRAG's discussion paper "Goodwill impairment test: Can it be improved?" that the current guidance in IAS 36 is appropriate to enable entities to properly allocate goodwill to cash generating units (CGUs).

BNP Paribas does not agree with the concerns raised that impairment losses on goodwill are not recognised on a timely basis:

- "Management over-optimism" is in our view not demonstrated as although the estimate of recoverable amount depends on subjective estimates there is sufficient internal and external oversight of these estimates and the forecasts are regularly compared and analysed to the actual data to ensure a good level of reliability.
- The "shielding effect"[1] arises as goodwill is tested for impairment as part of the CGU to which the goodwill belongs. This is necessary as goodwill does not generate cash flows independently of other assets. An inappropriate shielding effect would only occur in the case where goodwill is not properly allocated to the appropriate CGU.

Goodwill amortisation

BNP Paribas is in favour of the re-introduction of goodwill amortisation. Acquired goodwill is recognised on the balance sheet while internally generated goodwill is not. In the long run we consider that acquired goodwill mixes with internally generated goodwill which implies this acquired goodwill should decrease over time. Re-introduction of goodwill amortisation will alleviate some of the issues raised with the impairment test.

Impairment test simplification

BNP Paribas is supportive of the proposals to remove the requirement for annual impairment testing, as this is not necessarily useful for CGUs with significant headroom before an impairment trigger will be reached. BNP Paribas is also in favour of the proposed simplifications to remove the restrictions from including some cash flows in estimating the value in use and to allow companies to use post tax items to estimate the value in use. Our position is in line with

[1] A CGU, or group of CGUs, containing goodwill, typically contains headroom. The headroom shields acquired goodwill against the recognition of impairment losses.

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the one expressed in our response to the 2017 EFRAG's discussion paper "Goodwill impairment test: Can it be improved?".

Our detailed responses to EFRAG's questions are included below. We also include our draft response to the detailed questions in the IASB DP. The draft responses to the IASB DP are still being discussed internally and may be subject to certain minor revisions but they should not change substantially.

Should you have any questions regarding our comments, please do not hesitate to contact us.

Yours sincerely,

Lars Machenil

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IASB's Discussion Paper section 2 — Improving disclosures about acquisitions

IASB's Discussion Paper Question 2

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Questions for EFRAG's constituents (EFRAG's comment letter § 54-57)
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?
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?
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.
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?
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We do not agree with the IASB proposal to include the required additional information in the notes to the financial statements (see Appendix - BNP Paribas's response to IASB's question 2). Information of this nature should be provided in the management commentary.

We note that similar information on significant acquisitions (such as strategic rationales, objectives, synergies etc.) is often already provided to investors outside of the financial statements and in our experience this information seemed to meet users expectations.

Given the nature of this non-GAAP management information, we do not think it would be relevant to make it subject to audit. It is not obvious either, whether and how the auditors would be able to verify this management information.

It is also unlikely that the requirement to disclose when an acquisition is not monitored would create much market discipline or would lead to meaningful changes to the way entities actually

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monitor the subsequent performance of acquisitions. Moreover, the purpose of the financial statements is not to determine how an entity should be managed.

Commercial sensitivity is our main concern and we understand that this is largely shared among other companies applying IFRS. Please refer to our response to IASB's question 2 for more details about this matter.

IASB's Discussion Paper Question 5

Questions for EFRAG's constituents (EFRAG's comment letter § 97-102)
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 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.
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.
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?
Question to preparers: costs of the disclosure (ref. Questions 2 to 5)
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.
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.
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.

See Appendix - BNP Paribas's response to IASB's question 5.

We do not have specific input on investigating which disclosure requirements of the current IFRS 3 could be removed without depriving investors of material information.

IFRS 3 contains some disclosure requirements that may seem excessive in certain areas. However, in practice, these disclosures are only provided for significant acquisitions and these happen quite infrequently. The other business combinations which we enter into are normally not large enough at a group level to warrant all IFRS 3 disclosures. Accordingly, revising these

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disclosure requirements is not a major concern for us.

It is also difficult to provide further input on the cost of various disclosure proposals, as requested by EFRAG. As mentioned above, acquisitions for which such disclosures are provided do not happen very frequently and the circumstances for each of these significant acquisitions are unique. Accordingly, it is difficult to make a detailed assessment of the costs to prepare the disclosures (we have limited recent past experience and the costs will vary depending on the circumstances).

IASB's Discussion Paper section 3— Goodwill impairment and amortisation

IASB's Discussion Paper Question 6

Questions for EFRAG's constituents (EFRAG's comment letter § 136-137)
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?
Do you think that the benefit from changing such guidance would outweigh costs? Would there be significant additional costs?

As already expressed in our response to the 2017 EFRAG's discussion paper "Goodwill impairment test: Can it be improved?", we believe the current IAS 36 guidelines are sufficient. These enable the entity to use the judgement it deems relevant to enable a faithful representation of the transaction according to its facts and circumstances (e.g. expected synergies or benefits of the acquisition). This judgment is moreover submitted to auditors review and to an appropriate documentation.

When elaborating the standard, the Board addressed concerns on the goodwill allocation, and IAS 36 BC provides useful guidance on this matter, clarifying that:

- a portion of the carrying amount of goodwill should be regarded as capable of being allocated to a cash-generating unit on a reasonable and consistent basis only when that unit represents the lowest level at which management monitors the return on investment in assets that include the goodwill (BC138);
- even in the case where a business combination enhances the value of all of the acquirer's pre-existing cash-generating units, "there should be a link between the level at which goodwill is tested for impairment and the level of internal reporting that reflects the way an entity manages its operations and with which the goodwill naturally would be associated"(BC139, BC140).

The IASB also addressed some concerns regarding possible inappropriate "shielding effects" in IAS 36 BC 150, which follows a comparison between US GAAP and IFRS standard: "Aggregating units that constitute businesses with similar characteristics could result in the

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disappearance of an impairment loss that management knows exists in a cash-generating unit because the units with which it is aggregated contain sufficient cushions to offset the impairment loss. In the Board's view, if, because of the way an entity is managed, information about goodwill impairment losses is available to management at a particular level, that information should also be available to the users of the entity's financial statements."

We therefore think that no additional guidance is needed as the main issues with regards to the allocation and reallocation of goodwill to CGUs are already addressed. The relevance of costs incurred in relation to an additional guidance would definitely be questionable.

Questions for EFRAG's constituents (EFRAG's comment letter § 138-142)

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.

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

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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.

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 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.

Do you consider that the options listed are feasible and practicable for prepares 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.

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

"Management's over-optimism" topic is developed in Appendix - BNP Paribas's response to IASB's, question 6.

Disclosing information about the achievement of previous estimations and on assumptions related to the period for which management has projected cash flows based on financial budgets should not be costly to produce as this information is already followed internally. Our concern relates more to the sensitivity of such information, as well as to how the market could react, should forecasted data not be reached. Disclosing such comparisons and assumptions could lead to wrong messages. Moreover, the purpose of the Financial Statements is not to disclose analysis between forecast and actual data, which belongs to the scope of internal management accounting.

We also think that providing information such as the current level of cash flows/earnings to allow users to model themselves the future performance is not appropriate, as external users would always miss some additional information to complete their projections in a reliable manner.

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IASB's Discussion Paper Question 7

<u>Questions for EFRAG's constituents (EFRAG's comment letter § 165-169)</u>

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, new arguments or new assessments of the existing evidences have emerged since 2004.**

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.

Two of the different arguments in favour of amortisation 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.

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?

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)?

See Appendix- BNP Paribas's response to IASB's question 7.

Disclosing information about the "age" of goodwill to reflect which part of goodwill is older seems in contradiction with the current IASB's approach towards goodwill, which is to allocate it to a CGU (or group of CGUs) where it is mixed with all other acquired and internally generated goodwill. We wonder how the presentation of an "old goodwill" would be interpreted by users of financial statements: what indication would the age of a goodwill provide? Would it be an indicator of possible impairment? It is worth noting that, in practice historical goodwill are not separately followed after being allocated to a CGU (or group of CGUs).

Moreover, we have difficulties in understanding the concept underlying the ageing of goodwill, because either one considers that:

- acquired goodwill diminishes over time (either because it is a wasting asset or because it mixes with internally generated goodwill) in which case amortisation is appropriate; or that
- acquired goodwill does not diminish over time unless there is an impairment, in which case there is no goodwill amortisation and the age of the goodwill is not relevant and should not be disclosed.

Disclosures on goodwill aging (probably also split by CGU) will likely give rise to additional costs without providing useful information.

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IASB's Discussion Paper section 4 — Simplifying the impairment test

IASB's Discussion Paper Question 9

Question for EFRAG's constituents (EFRAG's comment letter § 197) EFRAG has illustrated 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?

In its 2017 discussion paper "Goodwill impairment test: Can it be improved?", EFRAG suggested introducing an initial qualitative assessment, similarly to US GAAP requirements ("Step Zero" approach), to assess if there is a need to determine the recoverable amount of a CGU. We were favourable to EFRAG's proposal as the impairment test is not necessarily useful for CGUs where there is some important room before an impairment trigger is reached. In our 2017 response, we suggested that, if this "Step Zero" approach was to be implemented, the thresholds for triggering an impairment test should be harmonized with those existing under US GAAP.

We understand EFRAG's reservation as regards the introduction of an indicator-only approach, but are not necessarily convinced it is justified. In our organisation, we do not need to perform a goodwill impairment calculation for all CGUs to identify those for which there is no indication of impairment.

See also Appendix - BNP Paribas's response to IASB's question 9.

IASB's Discussion Paper Question 10

Questions for EFRAG's constituents (EFRAG's comment letter § 217-219) 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)? 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

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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?
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?

In its 2017 discussion paper "Goodwill impairment test: Can it be improved?", EFRAG suggested allowing an entity to take into account the effect of a future restructuring only if it is subject to a formal plan (although not yet made public) and/or the restructuring is expected to be completed in the foreseeable future. We agreed to include such effects in the calculation of the value in use, consistently with assumptions of the management. Moreover, the inclusion of future restructuring effects in the impairment calculation would be in line with what a buyer would do when determining the maximum purchase price to be paid.

Consistently with this position, we are supportive of the IASB's proposal and welcome the inclusion of cash flows from improving or enhancing the asset's performance. We indeed think that forecasted data used for impairment testing should be as much as possible aligned with data prepared for internal forecast and budget exercises and subject to management's reviews.

In 2017, EFRAG suggested changing the requirements in IAS 36 to allow entities to elect either a pre-tax or post-tax calculation. We agreed with this proposal as from an operational perspective we use a post-tax rate and symmetrically consider post-tax cash flows to assess the value in use of a CGU. We therefore welcome the integration of this proposal in IASB's DP.

See also Appendix - BNP Paribas's response to IASB's question 10.

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IASB's Discussion Paper section 5—Intangible assets

IASB's Discussion Paper Question 12

<u>Question to constituents that are users of financial statements (EFRAG's comment letter § 239)</u>
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?

See Appendix - BNP Paribas's response to IASB's question 12.
Our view would remain unchanged if amortisation of goodwill were to be re-introduced.

IASB's Discussion Paper section 6 —Other recent publications

IASB's Discussion Paper Question 14

Questions for EFRAG's constituents (EFRAG's comment letter § 258-264)
Effects of deferred tax liabilities and other tax implications
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)?
Would you support a change in the goodwill accounting (along the lines of paragraph above),

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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.
Would you anticipate other tax implications from the proposals in the DP?
Reversal of goodwill impairment losses
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.

Effects of deferred tax liabilities and other tax implications

BNP Paribas's portion of goodwill resulting from the effects of deferred tax liabilities is not significant compared with the goodwill recognised in our financial statements (less than 5 % of recognised goodwill).

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APPENDIX – BNP Paribas's draft responses to IASB's Discussion paper

Section 1 – Introduction

IASB DP - 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 of the ED explain that these preliminary views are a package and those paragraphs identify some of the links between the individual preliminary views. The Board has concluded that this package of preliminary views would, if implemented, meet the objective of the project. Companies would be required to provide investors with more useful information about the businesses those companies acquire. The aim is to help investors to assess performance and more effectively hold management to account for its decisions to acquire those businesses. The Board is of the view that the benefits of providing that information would exceed the costs of providing it. (a) Do you agree with the Board's conclusion? Why or why not? If not, what package of decisions would you propose and how would that package meet the project's objective? (b) Do any of your answers depend on answers to other questions? For example, does your answer on relief from a mandatory quantitative impairment test for goodwill depend on whether the Board reintroduces amortisation of goodwill? Which of your answers depend on other answers and why?

We agree with some, but not all, of the IASB preliminary views summarised in paragraph IN9 of the DP as explained further in our responses to the questions on each specific proposal below. As a result, we do not agree with the high-level blanket statement that this package will meet the project objective.

We do agree that the answers to some of the questions may depend on the answers to other questions. In particular, the proposals in relation to goodwill amortisation are related to the proposals related to goodwill impairment testing as goodwill amortisation would alleviate some of the issues related to goodwill impairment. However, generally questions in the DP are not interrelated and we rather see the DP as a list of largely independent proposals. Accordingly, our answers to the proposals in the DP are also generally independent of one another. In particular, the proposals in relation to disclosures on synergies and the subsequent performance of acquisitions are independent of the proposals related to the subsequent measurement of goodwill.

Considering this as a package, paragraphs IN50 to IN53 suggest that the additional cost of providing the additional disclosure will be offset by the reduced cost from simplified impairment testing. This could be questioned as the DP introduces completely new disclosure requirements (which would likely induce additional cost); however, the simplification on impairment testing is quite targeted and narrow and the cost savings are likely to be more marginal. Looking at the package it has not been demonstrated that the benefits exceed the costs.

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Section 2—Improving disclosures about acquisitions

IASB DP - 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 IASB.

(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 IASB 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 IASB'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?

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While we can see that the disclosures envisioned by the IASB may be useful for investors, we do not agree that these should be required in the financial statements for the reasons explained below.

Purpose of financial statements

As we have mentioned in our response to IASB DP/2017/1 *Disclosure Initiatives – Principles of Disclosure,* the financial statements cannot be and are not the only source of information used by users. Paragraph 1.2 of the 2018 *Conceptual Framework for Financial Reporting* ('the Framework') does state that the general purpose of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. However, in spite of that, paragraph 1.6 of the Framework also acknowledges that general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need.

Based on paragraph 3.3 of the Framework we consider the notes to the financial statements are there to explain the information provided in the primary financial statements. Accordingly, from a conceptual perspective we do not think information such as that showing the subsequent performance of certain investments against management's internal metrics should be provided in the financial statements. Management accounting entails making forecasts and then subsequently comparing actual performance against those forecasts but reporting information of this nature is not within the realm of the financial statements.

Commercial sensitivity

The disclosures envisioned by the DP that may be of interest to investors are likely to be commercially sensitive. An entity may make an acquisition for a strategic reason and the sole disclosure to competitors of its objectives and performance metrics could threaten the success of transaction and have detrimental impact on the entity. If required, such disclosures would put companies applying IFRS at a disadvantage to those applying US GAAP.

FASBs Invitation to Comment

As noted in paragraph 6.11 the FASB Invitation to Comment discussed proposals for providing quite similar information, '*for example, including the key performance assumptions or key performance targets supporting the acquisition and performance against those targets for several years following the acquisition.*' The FASB decided not to move forward with these proposals because of various concerns such as

- Additional cost to prepare, audit and control this information
- Complexity if the acquired business is integrated into the existing operations
- Concerns that this type of forward-looking information, which enables investors to see the company through the eyes of management, may overlap with the SEC's current requirements on Management's Discussion and Analysis

Due to these concerns, the FASB took a different road and consulted stakeholders on disclosing the facts and circumstances that led to goodwill impairment testing without giving rise to

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impairment loss. In addition, they asked for suggestions of other operable ideas about new or enhanced disclosures related to goodwill.

Similar concerns arise for companies applying IFRS. Requiring these disclosures in IFRS financial statements when there are no equivalent requirements under US GAAP could create an uneven playing field (particularly if the information which is required to be disclosed could be commercially sensitive as discussed above).

How costly, verifiable and auditable

This management information is difficult to verify and audit. There may be many reasons for an acquisition, many objectives and many metrics that will be used to monitor it. Management may be able to select a high-level strategic rationale, objectives and metrics that they want to publicly disclose and it is difficult to see how the auditors will be able to verify that.

The proposed disclosure is about information that is already monitored internally so it is not supposed to be costly to obtain. In practice there will likely be costs incurred in discussions with auditors over which is the right information to disclose and how to verify and control this information.

Chief Operating Decision Maker

Although we do not agree with the proposals for the reasons given above, if the IASB moves forward with this, we agree that the disclosures on subsequent performance should be strictly limited to very material acquisitions monitored by the CODM.

Outreach

We propose that the IASB performs further field tests to obtain further evidence on whether these proposals would work in practice. For example, the IASB could consider performing some case studies looking at examples of recent actual acquisitions and considering specifically what they would expect to be disclosed under these proposals and how feasible and useful these disclosures would be in practice.

IASB DP - 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:

(a) the benefits that a company's management expected from an acquisition when agreeing the price to acquire a business; and

(b) the extent to which an acquisition is meeting management's (CODM's) objectives for the acquisition.

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

We are supportive of the IASB proposal to add a disclosure objective to provide information to help investors understand the benefits that a company's management expected from an

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acquisition when agreeing on the price.

However, we have reservations about the disclosure objective to help investors understand the extent to which an acquisition is meeting management's (CODM's) objectives for the acquisition. As described in our response to Question 2 we consider that the financial statement is not the appropriate place for information of this nature.

IASB DP - Question 4

Paragraphs 2.62–2.68 and paragraphs 2.69–2.71 of the DP explain the IASB's preliminary view that it should develop proposals:

(a) to require a company to disclose:

(i) a description of the synergies expected from combining the operations of the acquired business with the company's business;

(ii) when the synergies are expected to be realised;

(iii) the estimated amount or range of amounts of the synergies; and

(iv) the expected cost or range of costs to achieve those synergies; and

(b) to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities. Do you agree with the IASB's preliminary view? Why or why not?

Synergies

The requirement to disclose a narrative description of the expected synergies is not so different from the current requirement in IFRS 3 § B64 (e) to disclose a qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer […]. Accordingly, this requirement alone would not lead to any meaningful change from the current IFRS 3 requirements.

We agree that disclosures of the timing for when synergies are expected to be realised, the estimated range of amounts of synergies and the expected costs to achieve those synergies may provide investors with useful information. However, information of this nature is already provided to investors in the management commentary and in other communication to investors outside of the financial statements. We think this is appropriate and we do not consider it will be helpful to have detailed prescriptive disclosure requirements in the financial statements, in particular if such information is not available or used by management internally.

Financing activities and defined benefit pension liabilities

We agree with the IASB's preliminary view for the reasons given in the DP.

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IASB DP - 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 IASB require companies to disclose how they prepared the pro forma information? Why or why not?

IFRS 3 also requires companies to disclose the revenue and profit or loss of the acquired business after the acquisition date, for each acquisition that occurred during the reporting period.

Paragraphs 2.78–2.81 explain the Board's preliminary view that it should develop proposals:

• To replace the term 'profit or loss' with the term 'operating profit before acquisition-related transaction and integration costs' for both the pro forma information and information about the acquired business after the acquisition date. Operating profit or loss would be defined as in the Exposure Draft General Presentation and Disclosures.

• To add a requirement that companies should disclose the cash flows from operating activities of the acquired business after the acquisition date, and of the combined business on a pro forma basis for the current reporting period.

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

We are not sure how useful the existing pro forma information really is to most users and so we would ask the IASB to reconsider based on the feedback to the DP whether these requirements should be retained.

As we are not sure of the usefulness of the existing pro forma disclosures we do not have strong views on the proposals to change the performance measure disclosed (proposal to replace the term 'profit or loss' with the term 'operating profit before acquisition-related transaction and integration costs'). However, introducing further guidance, terminology and definitions may increase complexity and may not necessarily solve all the issues identified in the post implementation review and summarised in paragraph 2.74.

We are not in favour of the proposals to extend the pro forma to include disclosures of cash flows from operating activities. We understand from paragraph 2.81 that such disclosures would help those investors who use cash flow measures in their analysis. We do not think that this is sufficient justification for the proposed disclosures and consider that further assessment is required to ensure that the additional benefits they would generate outweigh the costs that would be incurred to produce them. These pro forma disclosures will be complex and costly to prepare and the extent to which they will be useful to investors is questionable. In addition as outlined in responses to IASB ED/2019/7 *General Presentation and Disclosures* the cash flow statement is not relevant for banks as it does not provide useful information on liquidity and cash flow

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projections. Accordingly, specifically for the banking industry it is particularly likely that these disclosures will not provide additional useful information.

Should it be confirmed that the pro forma disclosures are really useful for users, these should be disclosed only for material acquisitions.

Section 3— Goodwill impairment and amortisation

IASB 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.

(a) Do you agree that it is not feasible to design an impairment test that is significantly more effective at the timely recognition of impairment losses on goodwill at a reasonable cost? Why or why not?

(b) If you do not agree, how should the Board change the impairment test? How would those changes make the test significantly more effective? What cost would be required to implement those changes?

(c) Paragraph 3.20 discusses two reasons for the concerns that impairment losses on goodwill are not recognised on a timely basis: estimates that are too optimistic; and shielding. In your view, are these the main reasons for those concerns? Are there other main reasons for those concerns?

(d) Should the Board consider any other aspects of IAS 36 in this project as a result of concerns raised in the Post-implementation Review (PIR) of IFRS 3?

We agree that developing a different and more effective impairment test is not feasible at a reasonable cost. Attempts made by IASB and EFRAG in this respect in the past led to models that would have been very complex and costly to implement.

On the other hand, we do not agree with the too late recognition of impairment losses criticism:

- The "shielding effect" is linked to the IASB's current conceptual view on goodwill, which is not to consider it as a separate asset of the acquiree but rather as "an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. Goodwill does not generate cash flows independently from other assets or groups of assets, and often contributes to the cash flows of multiple cash-generating units" (IAS36 §81). This asset relates to all the benefits that will be generated as a result of the integration of the acquisition within the group's businesses. This approach leads to allocating this asset to the CGU or the group of CGUs that will benefit from the acquisition, "irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units" (IAS 36 § 80 & 81). Thus, goodwill is an asset relating to a unit which may be much larger than the standalone acquiree. As a result, its recoverability is included in the recoverability of the unit which depends on the cash

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flows of this unit considered as a whole. An inappropriate shielding effect would only occur in cases where the allocation of goodwill would not be made properly. The existing guidance provided in IAS 36 (including BC) regarding the allocation of goodwill seems sufficient to us as it enables management to use its judgement to enable a faithful representation of the transaction according to the facts and circumstances, in particular on the basis of the expected synergies or benefits expected from the acquisition. This judgment is moreover submitted to auditors review and to an appropriate documentation.

- "Management's over optimism" when preparing the forecasts for impairment testing is not demonstrated: these data are prepared and reviewed consistently with the group budget process and forecast exercises, which involve control procedures. Regular comparisons between forecast and actual data are analysed and ensure a good level of reliability of the forecasted figures. We are more of the view that a minimum period of time is necessary to determine whether difficulties encountered after an acquisition can definitively not be solved and whether an impairment of goodwill has thus occurred. We also consider that a crisis should not immediately give rise to an impairment unless the acquirer expects that it will cause damages that will not be overcome in the future.

IASB DP - 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?

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a) supporting amortisation of goodwill ; b) new evidence that emerged since 2004 and c) recognition of impairment losses on goodwill on a timely basis

We are favourable to the re-introduction of goodwill amortisation.

From a theoretical perspective, we don't think all goodwill (either acquired or internally generated) and all components of goodwill should be described as a wasting asset. However we do consider that in the long run, acquired goodwill mixes with internally generated goodwill, which implies that this purchased goodwill should decrease over time as any intangible asset with a definite life. In the case of organic growth, internally generated goodwill is not recognised in the balance sheet. Amortisation of acquired goodwill makes the treatment of acquired goodwill converge over time with that of internally generated goodwill, as amortisation makes the acquired goodwill disappear from the balance sheet over time. This allows for better comparability between entities which grow through acquisitions and those which grow organically.

We acknowledge that this main conceptual argument, which we have in favour of goodwill amortisation, is not new, but we find it to be persuasive.

However, there are other more practical application arguments in favour of amortisation where there is new evidence based on our experience of applying the current accounting requirements. These arguments include:

- Impairment test leads to pro-cyclicality as an economic crisis could lead to a material effect in profit & loss that it is not always possible to anticipate. Amortisation would help minimising such effects.

- A part of the impairment test relies on judgemental unobservable inputs. Based on past experience, we have a better view of how sensitive the outputs are to these subjective inputs. Amortisation will not remove the requirement for the impairment test but there will be less emphasis on this issue as the carrying amount is reduced progressively through amortisation.

d) is acquired goodwill distinct from internally generated goodwill?

Internally generated goodwill and acquired goodwill can represent the same type of asset (an established workforce, going concern value, market shares etc.). However even though they are similar in substance, acquired goodwill is initially distinct from internally generated goodwill for the obvious reason that the acquired goodwill is purchased in a business combination. Accordingly, acquired goodwill is considered by the IASB to meet the criteria for being recognised as an asset on the balance sheet as opposed to internally generated goodwill. However, as described above, over time we consider that the acquired goodwill mixes with the internally generated goodwill and the distinction is lost.

e) management performance measures

In case amortisation of goodwill would be re-introduced, we would show it below the operating result on the face of the statement of profit or loss, as is currently the case for impairment loss on goodwill. In our response to IASB's exposure draft on "General Presentation and Disclosures", we recommended that "Net gains or losses on non-current assets", "goodwill impairment" as well as "negative goodwill" be specifically excluded from the operating result per the IFRS definition. We are indeed of the view that such items are more linked to the investing

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category than to the operating category. The same analysis applies to goodwill amortisation. Would amortisation be included within the operating result, we would probably deduct it in a Management Performance Measure.

f) useful life of goodwill

If goodwill amortisation were to be re-introduced, we recommend to base the amortisation period on management's reasonable estimate, determined according to the characteristics of each acquisition. We think IFRS should limit the maximum amortization period. Exceeding the maximum period should however be permitted, with explanations justifying a longer period to be disclosed in the financial statements.

IASB DP - 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 IASB would be likely to require companies to present this amount as a free-standing item, not as a subtotal within the structure of the balance sheet (see the Appendix to this Discussion Paper).

(a) Should the Board develop such a proposal? Why or why not?

(b) Do you have any comments on how a company should present such an amount?

We do not support this proposal, as this would contradict the accounting recognition of the goodwill as an asset.

We understand that the proposal intends to highlight the weight of the goodwill in the net equity. We consider that this purpose is easily reached when the goodwill amount appears directly on the face of the balance sheet, which is already the case for many entities (and is included in the IASB's Exposure Draft on General Presentation and Disclosures).

Section 4 — Simplifying the impairment test

IASB DP - 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?

We are rather favourable to the proposal to remove the annual impairment test requirement, as performing the impairment test is not necessarily useful for CGUs when there is some important room before an impairment trigger can be reached. We also agree that for such cases, a company would still need to assess at the end of each reporting period whether there is any indication that there may be an impairment. Moreover, we don't think that in case the annual requirement was suppressed, expertise in performing the test would be likely to decline: independently of IAS 36 impairment testing BNP Paribas would continue for internal management purposes to perform similar tests to determine if activities are value creating or value destroying.

If such a qualitative assessment of impairment indicator was to be introduced, we think that the thresholds triggering an impairment test should be harmonized with those existing under US GAAP ("Step zero approach").

It would also be necessary to develop additional guidance on the criteria to consider, to identify indicators of impairment.

Due to the qualitative assessment of the possible existence of impairment indicator, we are not sure that the removal of the annual impairment testing requirement would make impairment test significantly less costly.

Should the annual requirement be maintained, we would be supportive of an enhancement of paragraph 99 of IAS 36, which permits that the most recent detailed calculation of the recoverable amount of a CGU to which goodwill has been allocated is carried forward from a preceding period for use in the current period's impairment test, provided all of the criteria in paragraph 99 are met. Indeed, we agree with the explanations on paragraph 99 that are included in BC177.

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IASB DP - Question 10

The Board's preliminary view is that it should develop proposals: (a) 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 (b) 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. (c) Should the Board develop such proposals? Why or why not? (d) Should the Board propose requiring discipline, in addition to the discipline already required by IAS 36, in estimating the cash flows that are the subject of this question? Why or why not? If so, please describe how this should be done and state whether this should apply to all cash flows included in estimates of value in use, and why.

We are supportive of the proposed simplifications related to the value in use (VIU) calculation, as they correspond to the Group's practice and they align the computation of data for impairment testing and for budget and forecast exercises.

We don't believe that removing the restriction on cash flows expected to arise from a future uncommitted restructuring or from improving or enhancing the asset's performance would lead to over optimistic inputs when computing the VIU, or that it would be necessary to require discipline, in addition to that already required by IAS 36, in preparing estimates of these cash flows , as suggested in the DP (§ 4.40):
"(a) setting a probability threshold to determine when these cash flows should be included—for example a 'more likely than not' threshold; or
(b) requiring additional qualitative disclosures about the measurement uncertainty associated with estimates of the amount, timing and uncertainty of these particular cash flows."
We think indeed that the current requirements included in IAS 36 are sufficient. As mentioned in the DP (§ 4.41):
(a) IAS 36 already requires companies to use reasonable and supportable assumptions as summarised in paragraphs 3.26–3.27; and
(b) paragraphs 134(d) and 134(f) of IAS 36 require companies to disclose information about the assumptions on which management based its estimates of the recoverable amount.

We do not think the IASB should require discipline in addition to that already required by IAS 36. We already have detailed internal processes for estimating the forecasts/budgets and these are subject to appropriate internal challenge and oversight from management and general management. We believe this is also the case in most organisations. Besides, as these are internal estimates we do not think it would be useful for the IASB to add additional guidance requiring discipline. (See also our comments on "Management'fres over optimism" in our response to question 6 above").

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IASB DP - 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?

BNP Paribas agrees with IASB's proposal not to develop any of the simplifications summarised in paragraph 4.55 of the DP, and in particular:

- § 4.55 (b) mandating only one method for estimating the recoverable amount of an asset (either value in use or fair value less costs of disposal), or requiring a company to select the method that reflects the way the company expects to recover an asset. We believe that the current method is appropriate. We would be at least opposed to any amendment that would remove the possibility to use a value in use method to test impairment, as value in use reflects the manner in which an entity expects to use an asset, independently from the view of market participants. Moreover, valuation inputs such as comparables are not always available for determining the fair value of the CGUs.

- § 4.55 (d): not to add further guidance on allocating goodwill to cash-generating units, for the reasons mentioned when commenting the "shielding effect" in question 6 above.

Section 5—Intangible assets

IASB DP - 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?

We agree that IASB should not develop a proposal to allow some intangible assets to be included in goodwill, as allocating the purchase price to all identifiable assets including intangibles provides useful information about the nature of the acquisition, and contributes to a better understanding of the purchase price. Nevertheless, in some cases, by exception, the recognition of some trademarks separately from goodwill may not result in relevant information.

We also think that IAS 38 "Intangible assets" needs to be revised in a dedicated project, in particular in the context of the technological changes of the recent years. This project should

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include the recognition of intangibles acquired in the context of a business combination.

Section 6 —Other recent publications

IASB DP - 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 the DP 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?

While convergence with US GAAP is preferred (in particular on fundamental points such as goodwill amortization), that should not come at all costs.

We therefore think the IASB and FASB should be influenced by one another. In particular we urge the IASB to reconsider carefully how the FASB has responded to the issues raised in question 2 and not introduce IFRS requirements which could put companies applying IFRS at a disadvantage (refer to our response to question 2).

IASB DP - Question 14 Do you have any other comments on the Board's preliminary views presented in the DP? Should the Board consider any other topics in response to the PIR of IFRS 3?

We have no other comments.

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