Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2020:07

International Accounting Standards Board
Columbus Building,
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Board members,

Re: Discussion Paper DP/2020/1 Business Combinations – Disclosures, Goodwill and Impairment

The Swedish Financial Reporting Board is responding to your invitation to comment on the Discussion Paper DP/2020/1 Business Combinations – Disclosures, Goodwill and Impairment (the 'DP').

We continue to believe that amortisation of goodwill should be reintroduced and our discussions and conclusions regarding other areas in the DP are based on reintroduction of amortisation. Another view is that we are hesitant about the suggested disclosures regarding the subsequent follow-up of business combinations.

Goodwill amortisation

In our view acquired goodwill is an asset that is consumed and normally replaced with internally generated goodwill to a greater or smaller extent. Amortisation therefore ensures that the cost of acquired goodwill is recognised in profit or loss and that the internally generated goodwill will have no "shielding effect". Conceptually, amortisation is a method of allocating the cost of acquired goodwill over the periods it is consumed. This approach is consistent with the approach applied to other intangible and tangible fixed assets that do not have indefinite useful lives. There is no conceptual reason for treating acquired goodwill differently than other tangible and intangible assets. We also note that the members of IASB have different views regarding this.

We are aware of the difficulties of predicting useful life of acquired goodwill with a high level of reliability but this should in our view not hinder reintroduction of goodwill amortisation. We believe that reasonable approximations are possible and disclosing information around this would be valuable information for users. More work in this area would of course be needed before amortisation is reintroduced.

As a final note we believe that the IASB should take a decision not affected by discussions of FASB. The outcome of FASB's discussions around this have not influenced our answers and will not change our standpoint.

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Impairment and simplifying the impairment test
We fully agree with the Board's conclusion that significantly improving the effectiveness of the impairment test for goodwill at a reasonable cost is not feasible. A number of alternative impairment tests have been suggested by different parties over the years and from our view they have in most cases only added complexity without really improving the effectiveness. We are aware of the problems of optimism and shielding but find it hard to see that changes to IAS 36 could solve this issue and agree with the Board's view that optimism is best addressed by auditors and regulators. We also believe this is true for shielding. The requirement in IAS 36 that companies' budgets and forecasts should be used for the impairment test should put some limit to optimism since there are several people of the operations responsible for them in the organisations.

We agree with the Board's proposals to remove the requirement to perform a quantitative impairment test every year. This should reduce costs and efforts of the companies. However, we still would like to emphasize the importance of retaining impairment tests regardless if amortisation is reintroduced or not.

We fully agree with including cash flows arising from future uncommitted restructurings and from improving or enhancing the asset's performance. This would mean that companies could use their budgets and forecasts which would save work and more importantly means that the impairment tests are based on the actual budgets and forecasts. We also appreciate the suggestion to allow post-tax cash flows and post-tax discount rates. We believe that these suggestions would be good improvements and that the further simplifications in para 4.55 should not be carried through.

Improving disclosure about acquisitions
We are doubtful to the suggested disclosures regarding business combinations and consider there are several practical challenges with the disclosure requirements introduced in the DP. One reason is that we find it specifically difficult to provide information concerning acquired businesses as they are often integrated into existing businesses of the acquirer. Another reason is that several of the suggested disclosures also could be regarded as forecasts or very close to such which have been increasingly sensitive within the European Union due to MAR.

Finally, we are not convinced by the arguments provided in the DP that the new disclosure requirements would be of such high benefit for users, but instead believe that it could be explained by users doubts about the quality of impairment tests. If users find it difficult to follow up companies' performance and capability of handling business combinations successfully, they should together with auditors and regulators put more pressure on companies to disclose information and also to handle optimism and shielding in line with IAS 36 in the year of acquisition.

Regarding pro forma information showing revenue and profit or loss of acquired businesses for the full reporting period we doubt the value for users and also that it is widely used by them. We therefore suggest this to be deleted from IFRS 3.

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Intangible assets
Reintroduction of goodwill amortisation should lead to that the distinction between intangible assets and goodwill becomes less critical. Since the current rules are based on non-amortisation of goodwill, we believe that a review of the accounting for intangible assets acquired in business combinations would be fruitful. Especially as there are some intangible assets, such as trademarks, that have been seen as having an indefinite useful life.

Other
We find the proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill strange. It is hard to see the reason for adjusting for a specific asset and could give the impression that the recognized goodwill amounts are considerably less robust than other assets in the balance sheet.

If you have any questions concerning our comments, please address our Executive member Carina Edlund by e-mail to: Carina.Edlund@radetforfinansiellrapportering.se.

Stockholm, 30 November 2020

Yours sincerely

Anders Ullberg
Chairman

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