afme/
Finance for Europe

Submitted electronically via **www.ifrs.org** website

18 December 2020

Dear Sir / Madam,

Response to a public consultation by the International Accounting Standards Board on Discussion Paper DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment*

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the **Discussion Paper DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment*** ('DP') issued by the International Accounting Standards Board (IASB or the Board).

We fully appreciate the Board's intention to improve information to investors about the businesses which companies acquire. However, in our view the DP aims to cover two broad and distinct areas, such as acquisition disclosures and accounting for goodwill, which in our view should be kept as separate projects.

The majority of AFME members support the reintroduction of goodwill amortisation as a mechanism to gradually eliminate any goodwill from the balance sheet that no longer carries decision useful information. This view is not unanimous, acknowledging that this approach will cause GAAP differences as well as that the profit and loss effect from amortisation might not represent useful information either.

Were amortisation to be reintroduced, we think that the useful life should be determined on the basis of the period of time over which the acquisition is expected to generate benefits and synergies within a wider business. Whilst we think that specific facts and circumstances must be considered for each acquisition to determine such period, a maximum amortisation period should be established, via a rebuttable presumption, that would not exceed 20 years.

We think that goodwill amortisation will not eliminate the need for the annual impairment testing. Naturally, amortisation would help reduce the outstanding value of the goodwill, which would over time reduce the magnitude of the risk of impairment not being recognised. However, it might still be necessary to perform impairment assessment to identify whether there needs to be an additional reduction to the value of reported goodwill, where the amortised carrying value was not supported.

Discretion should be available to preparers to determine whether such an assessment should be conducted via the traditional annual impairment or whether it is appropriate to conclude on the assessment based on the analysis of possible impairment indicators (i.e. if no indicators of impairment have been identified based on the analysis, there is no need to perform the detailed impairment test). We note, however, it would be necessary to develop additional guidance on how to determine whether there are indicators of impairment.

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AFME is supportive of the IASB' proposal to remove the restriction in IAS 36 that prohibits companies from including cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance. We think that such an approach would promote a better reflection of management's views of the business and simplify the impairment test.

We also support the proposal to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use of an asset. We think that a pre-tax discount rate is not observable and is generally not used for valuation purposes, whilst it is a weighted average cost of capital (which is post-tax) that is used in determining the discount rate. We therefore believe that using the post-tax rate will help simplify the calculation of value in use of the asset, improve the understandability of the calculation and reduce its cost.

We agree that the Board should not develop a proposal to allow some intangible assets to be included in goodwill. Our view is that the purchase price of the acquired assets should be allocated to identifiable assets other than goodwill as much as possible, where any residual value left after the allocation would represent goodwill.

AFME does not support the Board's proposals associated with adding new disclosure requirements about the subsequent performance of an acquisition (questions 2-5 of the DP). Firstly, we are concerned that the nature of some of the information required might be commercially sensitive and that the proposed requirements would be impractical for many acquisitions which vary significantly by their nature and purpose (e.g. simple acquisitions to integrated skilled workforce). We think that it should remain at management's discretion to decide on the nature and extent of information provided by an acquiring entity in relation to performance expectations of a planned acquisition, including a balance of quantitative vs qualitative information.

Secondly, we share concerns about the verifiability of the information noted in paragraph 2.17 of the DP. We are also concerned about the auditability of the information given that disclosures might vary significantly depending on the industry and the nature of an acquisition, as well as due to the amount of judgment and estimates that the preparation of the disclosures would require. Finally, introducing the proposed disclosure requirements in the core financial statements would create a significant divergence from other major accounting frameworks, such as US GAAP. We think the divergence should be avoided, as it would place IFRS-only reporters at a disadvantage and might cause information arbitrage. AFME therefore strongly believes that relevant information on an acquisition could be presented in the management commentary section of the annual report but not in the primary financial statements.

We have noted further details of our positions in **Appendix A** to this letter.

We thank the IASB for their work and stand ready to discuss the content of this letter and/or of the Appendix or to provide any further clarity with regard to the statements made.

Yours faithfully,

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About AFME

AFME (Association for Financial Markets in Europe) advocates for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. AFME is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. AFME aims to act as a bridge between market participants and policy makers across Europe, drawing on its strong and long-standing relationships, its technical knowledge and fact-based work. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu. Follow us on Twitter @AFME_EU

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Discussion paper DP/2020/1 *Business Combinations – disclosures, goodwill and impairment*

Appendix A

18 December 2020

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?

AFME response:

AFME welcomes the Board's intention to improve information to investors about the businesses which companies acquire. However, the Discussion Paper aims to cover two broad and distinct areas, such as acquisition disclosures and accounting for goodwill, which we think should be kept separate. In this document we have provided our responses to the specific questions raised in the Discussion Paper where we articulate which parts of the package proposed we support and where we have reservations.

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?

AFME response:

We understand that with the proposed disclosures the DP is exploring ways to improve information on the subsequent performance of an acquisition for investors. We recognise the importance of such information, however the proposal raises a number of issues, noted below, and we therefore do not support it.

Firstly, whilst we understand the intentions of the proposal, we are concerned that the nature of some of the information required might be commercially sensitive. For example, detailed disclosures of a company's post-acquisition intentions, including precise targets, as well as details of any synergies obtained can expose confidential information that might have a negative impact on the competitive position of the reporting company. We therefore think that the proposed requirements are likely to result in companies refraining from disclosing such information. This might further lead to rather boiler plate disclosures that lack comparability and predictive value and thus may not achieve the objective of providing useful information to investors about the performance of an acquisition.

Additionally, acquisitions vary significantly amongst each other depending on the nature and purpose of an acquisition. For example, some acquisitions are integrated into a wider business very quickly (e.g. integration of an acquisition that brings in skilled/specialized staff) which makes the process of setting performance metrics for the specific business acquired and measuring the success of the acquisition impractical.

Therefore, AFME thinks that it should remain at management's discretion to decide on the nature and extent of information provided by an acquiring entity in relation to performance expectations of a planned acquisition, including a balance of quantitative vs qualitative information. For example, whilst we think that it would be appropriate to disclose reasons for the acquisition and management's expectations about potential benefits that the acquired business would generate, we do not support the prescriptive approach suggested by the DP where detailed performance metrics would need to be established and disclosed preceding the acquisition and where the success of the acquisition would need to be assessed against such metrics.

Secondly, we share concerns about the verifiability of the information noted in paragraph 2.17 of the DP. We are also concerned about the auditability of the information (which would essentially be comprised of non-GAAP measures) given that disclosures might vary significantly depending on the industry and the nature of an acquisition, as well as due to the amount of judgment and estimates that the preparation of the disclosures would require. Furthermore, introducing the proposed disclosure requirements in the core financial statements would create a significant divergence from other major accounting frameworks, such as US GAAP. We think the divergence should be avoided, as it would place IFRS-only reporters at a disadvantage and might cause information arbitrage.

AFME therefore strongly believes that relevant information on an acquisition could be presented in the management commentary section of the annual report but not in the primary financial statements. This approach would be consistent with current practices whereby a management report would describe company strategies and objectives, including in relation to mergers and acquisitions, both under the IFRS and US GAAP guidance.

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?

AFME response:

Please refer to our response to Question 2.

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?

AFME response:

Please see our response to Question 2.

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?

AFME response:

Regarding the proposed requirement to replace the term 'profit or loss' with the term 'operating profit before acquisition-related transaction and integration costs' (1st bullet of (c)), we think that the term 'profit or loss' should rather be replaced by the term 'operating profit before acquisition-related transaction', thus dropping the reference to 'integration costs'. We think the concept of 'integration cost' is quite ambiguous and might cause divergence of interpretation and practice.

Regarding the proposed requirement to 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 (2nd bullet of (c)), AFME does not support the proposal.

We note that current IFRS Standards already require entities to present extensive information relating to acquisitions that is costly to prepare and difficult to audit. For example, as referred to above, IFRS 3 currently requires an entity to prepare 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. Whilst the information is often difficult to prepare, we acknowledge that it might be useful in providing trend information about an entity's financial performance. With regard to providing the same information about cash flows, we think the usefulness of such information would be limited without providing additional information about how the disclosures were prepared (e.g. what additional information was considered and what assumptions were made). We think that preparing and auditing of such information will be costly, where costs are likely to outweigh the benefits. Furthermore, consistent with AFME response to a public consultation by the IASB on Exposure Draft ED/2019/7 *General Presentation and Disclosures*[1], we are of a view that the statement of cash flows for the banking industry does not convey useful and relevant information to the users, and therefore banks should not be subject to any additional requirements associated with the preparation and disclosure of the cash flow statement.

[1] https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME%20Response%20to%20IASB%20ED%20-%20General%20Presentation%20and%20Disclosure_Final_29092020-1.pdf

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?

AFME response:

We agree with the IASB's view that it is not feasible to design an impairment test that is <u>significantly more effective</u> at the timely recognition of impairment losses on goodwill at a reasonable cost. We think that the existing impairment test, whilst complex and costly, is generally fit for purpose and has established practices around it. We do not think that designing an alternative simplified test would bring substantial benefits without compromising the reliability of the test results and that would outweigh the costs of implementation and periodic running of the test. Instead, the majority of AFME members would support a reintroduction of goodwill amortisation which, overtime, would naturally help decrease the risk of a material impairment charge to goodwill balances. Please also refer to our response to Question 9 for more details.

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?

AFME response:

The cornerstone of our position regarding reintroduction of goodwill amortisation is a widely acknowledged need for a mechanism to eliminate goodwill balances from the balance sheet when they are no longer reflective of the incremental value of the acquired business that was valid at the point of acquisition. After an acquisition goodwill eventually becomes embedded in a wider business, with efficiencies and synergies achieved creating value that might be different from the initial goodwill value recognised. Therefore, after staying for too many years on a balance sheet, goodwill essentially loses its original meaning.

To this end, any sudden and material goodwill impairment charges might not represent useful information in the P&L, particularly if they are applied to a value that has been outstanding on the balance sheet for a long time and thus already has limited predictive value.

Therefore, the majority of AFME members support the reintroduction of goodwill amortisation as a mechanism to gradually remove any goodwill from the balance sheet that no longer carries decision useful information.

However, this view is not unanimous, and some members have voiced reservations against this approach as it would create GAAP differences, which would not be conducive to comparability of financial information across entities reporting under IFRS and US GAAP for example. Secondly, there is a view that amortisation expense would also represent an arbitrary figure in P&L that would not represent a useful performance indicator and that would create unnecessary volatility in the income statement. Financial analysts are likely to add amortisation expense back for the purpose of forecasting underlying company earnings and cash flows, which could prompt companies to create additional performance measures (to the question raised in bullet (e)) eliminating any amortisation effect.

Regarding the question of whether reintroducing amortisation would resolve the concerns that companies do not recognise impairment losses on a timely basis (bullet (c)), naturally, amortisation would help reduce the outstanding value of goodwill, which would over time reduce the magnitude of the risk of impairment not being recognised. However, reintroduction of goodwill amortisation and assessment for impairment should not be seen as mutually exclusive. Even if amortisation of goodwill were to be required, impairment assessment would need to be performed to assess whether there needs to be an additional reduction to the value of reported goodwill, where the amortised carrying value was not supported (especially in the first few years after the acquisition) (refer also to our response to Question 9).

With regard to the question on how the useful life of goodwill and its amortisation pattern should be determined (bullet (f)), were amortisation to be reintroduced, we think that the useful life should be determined on the basis of the period of time over which the acquisition is expected to generate benefits and synergies. We think that specific facts and circumstances must be considered for each acquisition to determine such period. We note however that too long an amortisation period might defeat the purpose of reintroducing amortisation, therefore we consider that a maximum amortisation period would need to be established as a rebuttable presumption, subject to additional disclosure requirements where a longer period was adopted. We propose 20 years as the maximum amortisation period and we think that a simple amortisation method, such as straight line, would be appropriate.

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?

AFME response:

AFME does not support the proposal. We believe that separately presenting the amount of total equity excluding goodwill on a balance sheet is not necessary, as this information can be easily calculated based on equity and goodwill balances already required to be reflected in the statement of financial position.

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?

AFME response:

As noted in our response to Question 7, AFME's view is that that the assessment of potential impairment would need to be conducted annually. However, we think that discretion should be available to preparers to determine whether such an assessment should be conducted via the traditional annual impairment or whether it is appropriate to conclude on the assessment based on the analysis of possible impairment indicators (i.e. if no indicators of impairment have been identified based on the analysis, there is no need to perform the detailed impairment test). We note, however, it would be necessary to develop additional guidance on how to determine whether there are indicators of impairment. We also note that, even if the requirement for an annual quantitative impairment test were to be removed, many AFME members are likely to continue to perform it in any case, as the test is usually considered to be the most reliable mechanism of impairment assessment.

In relation to any cost savings that might be achieved, if the requirement for an annual test were to be removed, we think that any such cost savings would be relatively marginal for many members, given that firms would be likely to continue to perform the test annually even if not required by the accounting standards. Additionally, firms would in any case need to assess whether a test was required on an ongoing basis, even if the requirement to actually perform the test each year was removed.

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.

AFME response:

AFME is supportive of the IASB' proposal to remove the restriction in IAS 36 that prohibits companies from including cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance.

We think that such an approach would promote a better reflection of management's views of the business and simplify the impairment test. It would allow preparers to use available management information, such as budgets and forecasts, which generally include expected cash flows from future uncommitted restructurings.

We do not think that the Board should propose requiring discipline, in addition to the discipline already required by IAS 36, in estimating the cash flows in question. Preparers already have robust governance processes around the preparation of management information, thus we do not think that further specific requirements are necessary.

We also support the proposal to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use. We think that a pre-tax discount rate is not observable and is generally not used for valuation purposes. Companies usually use weighted average cost of capital (WACC) in determining the discount rate, and the WACC is typically a post-tax measure. We therefore believe that using the post-tax rate will help simplify the calculation of value in use of the asset, improve the understandability of the calculation and reduce its cost.

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?

AFME response:

We agree with the IASB's preliminary view that it should not further simplify the impairment test.

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?

AFME response:

We agree that the Board should not develop such a proposal. Our view is that the purchase price of the acquired assets should be allocated to identifiable assets other than goodwill as much as possible, where any residual value left after the allocation would represent goodwill. This would provide useful information on the nature of the assets purchased which should help assess their predictive value in terms of their ability to generate future cash flows. We understand there are challenges associated with the recognition of certain types of acquired intangible assets which might therefore be allocated to goodwill and which, under the current accounting rules, would tend to remain a static figure on the balance sheet (subject to any impairment). In this respect, we think that the ability to amortise goodwill over time would also be helpful as it would allow for any intangibles that formed part of the goodwill to be amortised alongside the intangibles that were separately recognised.

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?

AFME response:

With regard to our response to Question 2, where we refer to potential GAAP differences that the proposed acquisition disclosure requirements would introduce, AFME would be opposed to the proposal even if there was no GAAP difference. Our position is mainly driven by the issues associated with the nature of the proposed disclosures.

With reference to our response to Questions 7, some members would not support the reintroduction of goodwill amortisation as it would create a GAAP difference. If convergence were to be achieved between IFRS and US GAAP in this respect, AFME's position in support of the amortisation approach would be more prevalent.