ICAEW
REPRESENTATION 115/20

BUSINESS COMBINATIONS—DISCLOSURES, GOODWILL, AND IMPAIRMENT

Issued 21 December 2020

ICAEW welcomes the opportunity to comment on the Discussion Paper *Business Combinations—Disclosures, Goodwill, and Impairment*, published by the IASB in March 2020, a copy of which is available from this link.

This response of 21 December 2020 has been prepared by the ICAEW Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

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We welcome the IASB's Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment* and broadly support many of the conclusions reached by the IASB. In particular, we agree with the decision not to reintroduce the amortisation of goodwill and the importance of providing users with clear and helpful information on post-acquisition performance.

However, we do not agree with all elements of the proposed package, in particular the suggestion to remove the requirement to perform an annual quantitative impairment test. There are other areas where we suggest further consideration or that field-testing is needed, most notably, the proposed disclosure requirements. We also believe that further consideration is needed as to how the annual impairment test could be improved.

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KEY POINTS

Support for discussion paper

1. We support the IASB's discussion paper *Business Combinations – Disclosures, Goodwill and Impairment*. We believe the Board has conducted a thorough analysis of the key issues arising from 2013/14 post-implementation review of IFRS 3 *Business Combinations* and we broadly support many of the conclusions reached by the IASB.

Maintaining the impairment-only model and annual quantitative test

2. We agree with the IASB's decision to maintain the impairment only approach for goodwill. In our view, the impairment test continues to be an important tool in holding management to account for acquisition decisions and can provide useful information for users. It is for this reason that we do not support the preliminary view that the IASB should develop proposals to remove the requirement to perform a quantitative impairment test every year. While we acknowledge that improvements could be made to the effectiveness of the impairment test, we do not believe that the requirement to perform the test annually should be removed.

Improving the impairment test for goodwill

3. We are disappointed that the IASB has decided not to progress its work on the headroom approach. In our opinion, the impact of shielding is the most significant problem with the current impairment model and the root of many of the criticisms it faces. We urge the IASB to reconsider this decision. While there may be no 'perfect' solution to the impairment-only model, in our view, any approach which is able to reduce the impact of shielding warrants further analysis.
4. We also believe that the IASB should consider providing further guidance on the impairment test and to explore where further improvements could be made. In particular:
   - Further guidance on testing goodwill for impairment at a more disaggregated level which might partially address the shielding problem (see question 6).
   - Further consideration of how goodwill is allocated to different CGUs and to ensure there is consistency between standards (see question 6).
   - Explore the possibility of an impairment test for goodwill which is a comparison of the carrying value versus recoverable amount (if, as proposed, the IASB proceeds with plans 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 in value in use calculations - see question 10).

Further consideration and field-testing needed in some areas

5. We agree that requiring additional disclosures on acquisitions has the potential to help investors hold management to account. However, we are unsure if the information that would be provided under the proposed disclosures would be sufficiently clear, precise or comparable to be useful to users. Careful consideration is needed to ensure that the cost of providing the information does not outweigh the benefits. As a next step, it might be helpful for the IASB to perform further field-testing on the proposed disclosure requirements. This will help to refine the proposals and ensure that any information provided meets investors' needs while taking account of what companies can realistically provide.
6. We have similar concerns regarding the proposal to retain the IFRS 3 requirement to provide pro forma information. As a next step, we suggest it may be helpful for the IASB to carry out additional field-testing on methodologies and guidance provided for the preparation of pro-forma information. This might inform the IASB as to what information is helpful to investors and whether improvements and further guidance are needed (see question 5).

ANSWERS TO SPECIFIC QUESTIONS

Question 1. Paragraph 1.7 summarises the objective of the Board's research project. Paragraph IN9 summarises the Board's preliminary views. Paragraphs IN50–IN53 explain that these preliminary views are a package and those paragraphs identify some of the links between the individual preliminary views.

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

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

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

7. The IASB states that the objective of the discussion paper is to explore whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make. Better information would help investors assess the performance of companies that have made acquisitions. Better information would also be expected to help investors more effectively hold a company's management to account for management's decisions to acquire those businesses.
8. As discussed in our responses to the questions below, we broadly support many of the conclusions reached by the IASB in this discussion paper. In particular, we support the decision not to reintroduce the amortisation of goodwill and the importance of providing users with clear and helpful information on post-acquisition performance. However, we do not agree with all elements of the proposed package, in particular the suggestion to remove the requirement to perform an annual quantitative impairment test.
9. There are other areas where we suggest further consideration or that field-testing is needed, most notably, the proposed disclosure requirements. We also believe that further consideration is needed as to how the annual impairment test could be improved. We believe that the IASB should also explore further the approach to allocating goodwill to CGUs, and whether this could be conducted at a more disaggregated level.

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'.***
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> ***(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.***
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> ***(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?

Response to questions 2(a)(b) and (d)

10. Paragraph 2.4 of the discussion paper highlights an issue, raised by investors, that companies do not typically provide enough information on the subsequent performance of acquisitions. As a result, investors have identified difficulties in assessing whether management objectives are being met – for example, whether the synergies that management expected from an acquisition are being realised.

11. Overall, we support the IASB's decision to address this matter and agree that requiring additional disclosures has the potential to further help investors hold management to account. However, we question how effective the proposed disclosures outlined in 2(b)(i) – (vi) are likely to be in resolving the issued identified by the IASB.

12. In our view, some of the proposed disclosures, for example those on the strategic rationale and the objective of an acquisition, provide information that would be better placed within the narrative section of an annual report, ie, the management commentary. Requiring this information in the financial statements appears to introduce too much 'through the eyes of management' analysis and commentary which will lack comparability.

13. We believe there needs to be a clear distinction between the roles of the management commentary and the financial statements. Information provided in the financial statements needs to focus more on providing comparable data and not (subjective) analysis of that data. It may be helpful for the IASB to explore instead what new comparable data relating to business combinations could be introduced into the financial statements. Examples could be disclosures on aggregate goodwill, goodwill analysed by year of acquisition, and information about cash generating units.

14. We appreciate that the IASB is not able to mandate the information required in the management commentary and that, as a result, if the proposed disclosures are not required

as part of IFRS 3, they may not necessarily appear anywhere in the annual report. On the other hand, mandating this information within the financial statements could result in duplication when similar information is provided elsewhere within the annual report.

15. We also agree with the concerns raised in the discussion paper around commercial sensitivity of some of the relevant information, and we expect that management might limit the provision of useful disclosure where this is a concern.

16. Furthermore, as with segment reporting, requiring management to disclose the metrics used to monitor performance of an acquisition might risk management being selective in which metrics are used and/or might encourage changes to metrics. This would also limit the usefulness of the information provided.

17. As a result of the issues outlined above, we are unsure if the resulting information provided would be sufficiently clear, precise or comparable to be useful to users. Careful consideration is needed to ensure that the cost of providing the information does not outweigh the benefits. As a next step, it might be helpful for the IASB to perform further field-testing on the proposed disclosure requirements. This will help to refine the proposals and ensure that any information provided meets investors' needs while taking account of what companies can realistically provide.

Response to question 2(c)

18. We agree that how information and acquisitions are reviewed internally could be a helpful consideration when determining what information on acquisitions should be disclosed. However, we do not believe it is necessary for the IASB to define the level (either by reference to the CODM or another term) at which the acquisition is reviewed internally and/or that this should be the sole indicator of whether an acquisition is material. In other words, whether or not information on an acquisition should be disclosed should depend on the extent to which it is considered to be material by the entity. This decision requires judgement and will depend on a number factors including (but not solely) the level at which that information has been reviewed internally.

Response to question 2(e)

19. We are not aware of any constraints in the UK which would affect a company's ability to disclose the information outlined above.

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?

20. Similar to our response to question 2, we agree with the objective of providing this information but question whether it will be effective in addressing the issue outlined in paragraph 2.4 of the discussion paper (for the same reasons outlined above). We do not suggest that the IASB should abandon these proposals but instead should perform further field-testing to understand how the disclosures might work in practice and to refine the disclosure requirements accordingly.

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?

21. In line with our previous comments, while we agree with the underlying objective of disclosing the information in the first bullet, we have concerns about how effective it will be in addressing investor concerns.
22. If the IASB decides to pursue these disclosure requirements, we recommend that further guidance should be provided on what constitutes a synergy, and that the term synergy should be defined within the standard.
23. We agree with the proposal that the IASB should develop proposals to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities. As a result, companies would need to disclose separately the amount of such liabilities acquired as part of the acquired business for each acquisition, if the information is material. We agree with the discussion paper's conclusion that this information is likely to be useful for investors and also readily available to companies because those items are required to be recognised and measured at the date of acquisition.

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?

24. While we agree that the pro forma information currently required under IFRS 3 can provide useful information for analysis, it is also subjective. We have, therefore, reflected on a potential alternative disclosure, drawing on a previous requirement under the old UK GAAP regime (FRS 6). This alternative would require disclosure of the actual revenue and profit of

the acquired entity from the start of the financial period to the acquisition date and then what it has contributed to the combined group since acquisition. In our view, an approach along these lines would be more easily understood by users and would remove some of the judgement arising from the existing pro forma requirement. We recognise that the acquiree's pre-acquisition profit (and in some circumstances revenue) might be prepared using a different measurement basis than that used for its contribution post-acquisition. Where this results in significant differences, it will affect the usefulness of the information, although this might be addressed by including an explanation of the major differences.

25. If the IASB decides to continue with the current pro forma requirement, we suggest that further guidance should be added to the standard to help preparers establish the basis upon which the pro forma information has been prepared, and that companies should be required to disclose that basis. This will help improve the consistency and therefore comparability of the information.

26. Overall, we have heard differing views on the usefulness of the pro forma information required under IFRS 3, on whether an alternative approach would provide more useful information, and even on whether this requirement should be retained at all. In the next stage of this project, it may be helpful if the IASB carries out field-testing on methodologies and guidance provided for the preparation of pro-forma information. This might inform the IASB as to what information is helpful to investors and whether improvements and further guidance are needed.

27. We agree with the proposals in paragraphs 2.78 – 2.81 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. It may be helpful for the IASB to define integration costs in this respect, and to consider requiring disclosures about them.

28. We also agree to the addition of 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. We believe that this information would be potentially useful; and some entities may already prepare such information internally. The IASB might also consider asking users whether analogous disclosures about the other two categories of cash flows might also be useful.

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?

Response to questions 6(a) and (b)

29. We agree that the Board has conducted a thorough analysis of the impairment test for cash-generating units containing goodwill. The discussion paper is comprehensive, reflecting diverse points of view in a clear and balanced way.

30. However, we are disappointed that the IASB has decided not to progress its work on the headroom approach. In our opinion, the impact of shielding is the most significant problem with the current impairment model and the root of many of the criticisms it faces. The IASB appears to have concluded that the headroom approach should not be pursued because it would not eliminate shielding completely (paragraph 3.49) and that it could result in impairments that, in some circumstances, are difficult to understand (3.50). We urge the IASB to reconsider this decision. While there may be no 'perfect' solution to the impairment-only model, in our view, any approach which is able to reduce the impact of shielding warrants further analysis.

31. We also believe that the IASB should consider providing further guidance on testing goodwill for impairment at a more disaggregated level which might partially address the shielding problem. It is our understanding that many preparers make use of the current guidance in order to perform the impairment test at an operating segment level, which may contribute to the shielding problem. More generally, we would welcome the IASB considering how goodwill is allocated to different CGUs and to ensure there is consistency between standards. Currently, goodwill is allocated on a different basis under IFRS 3 (for impairment testing purposes) than under IAS 21 (for foreign exchange purposes). This unhelpfully adds to the complexity and confusion.

32. Another consideration is whether the IASB should rename the impairment test to refer instead to 'a cash generating unit carrying value test.' This might better reflect what is being tested under the current impairment model and clarify that goodwill cannot be tested directly (under the current requirements).

33. In our response to question 2, we outlined some possible disclosures which might provide helpful information regarding post-acquisition performance. In addition to those already noted, the IASB might also consider requiring a disclosure which highlights where goodwill is more likely to be subject to the 'shielding effect', eg, when it has been allocated to a CGU where the acquired business has been integrated with an existing business. A table outlining the detailed purchase price allocation might also provide useful information, as might disclosure about the reasons for the particular goodwill allocation.

Response to question 6(c)

34. Following on from our comments above, we agree that the two key reasons for the concerns that impairment losses on goodwill are not recognised on a timely basis relate to overly optimistic management expectations and the effects of shielding.

Response to question 6(d)

35. Other than the matters discussed in question 9, we do not believe that there are any other aspects of IAS 36 that the Board needs to consider (as part of this project).

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?

Response to questions 7(a) and (c)

36. We agree that the amortisation of goodwill should not be reintroduced. In our view, little useful information is conveyed to users of financial statements by annual amortisation expenses over arbitrarily determined lives. The fact that the goodwill asset figure might sometimes be large (because of insufficient impairment) does not affect our view. This is because we believe that analysts are generally more interested in understanding the assumptions and approach followed by management when conducting the impairment test, and value the rigour that this imposes on management.
37. We do not accept that the arguments set out in paragraphs 3.60, 3.61 and 3.63 of the discussion paper (regarding impairment losses being recognised infrequently, impairment losses not sufficiently holding management to account, and goodwill being a wasting asset) are sufficiently convincing to suggest a change to the current impairment-only model.
38. Reflecting on pre-2004 experience, we believe that, if amortisation were to be reintroduced, companies would adjust or create new management performance measures to add back the amortisation expense.

Response to question 7(b)

39. Our view on whether amortisation of goodwill should be reintroduced has not changed greatly since 2004. We note that the discussion paper refers to extensive research since 2004 which suggests that impairment expenses (though inexact) contain some useful information.

Response to question 7(d)

40. We assume that this question is linked to the IASB's assessment of the 'headroom approach'. This is because paragraph 3.43 of the discussion paper notes that the 'headroom approach' would not identify whether the cause of any reduction in total goodwill was a reduction in the value of the acquired goodwill or a reduction in a component of the unrecognised headroom. If the IASB were to adopt this approach it would need to specify how companies would allocate the reduction in total goodwill. One of the allocation options described in the discussion paper would be to allocate the reduction pro rata to both the acquired goodwill and the unrecognised headroom.
41. The IASB goes on to state that a pro rata allocation would be consistent with the view that all goodwill within a cash-generating unit is a single unit of account and that goodwill cannot be measured independently. Under that view, the IASB concludes that any distinction between acquired goodwill and goodwill subsequently generated internally does not portray any real economic phenomenon. On the other hand, it notes that for those who view acquired and internally generated goodwill to be distinct, a pro rata allocation or an allocation of all the reduction to the acquired goodwill may sometimes produce a result that is inconsistent with the performance of an acquisition and therefore would not provide a faithful representation of that performance.
42. It is within this context that we have considered the IASB's question. We view acquired goodwill as distinct from goodwill subsequently generated internally in the same cash-generating units. However, that does not mean that efforts to identify the various elements

would be useful. As already noted, we believe that the IASB should consider the headroom approach in more detail, including how any reduction in total goodwill would be allocated between acquired goodwill and internally generated goodwill.

Response to question 7(e)

43. We doubt the argument in paragraph 3.62 (that non-amortisation of goodwill provides incentives for managers to record higher amounts for goodwill, likely increasing post-acquisition earnings and bonuses), because compensation could be based on profits before goodwill amortisation. The arguments in paragraph 3.64 regarding amortisation providing useful information about the consumption of goodwill, depends upon the idea that entities would not default to a ‘maximum period’ for amortisation, even when the presumption of the maximum life is rebuttable. However, pre-2005 experience suggests that many entities did use the rebuttable presumption of a maximum life as a default period.

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?

44. We do not agree that the IASB should develop a proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill. In our view, this would introduce clutter into the balance sheet, and users can easily do this calculation themselves, especially once goodwill is required to be shown on the balance sheet, as under the proposed replacement for IAS 1. Indeed, it is our understanding that many analysts already do make such a calculation.

Question 9. Paragraphs 4.32–4.34 summarise the Board’s preliminary view that it should develop proposals to remove the requirement to perform a quantitative impairment test every year. A quantitative impairment test would not be required unless there is an indication of impairment. The same proposal would also be developed for intangible assets with indefinite useful lives and intangible assets not yet available for use.

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

(b) Would such proposals reduce costs significantly (see paragraphs 4.14–4.21)? If so, please provide examples of the nature and extent of any cost reduction. If the proposals would not reduce costs significantly, please explain why not.

(c) In your view, would the proposals make the impairment test significantly less robust (see paragraphs 4.22–4.23)? Why or why not?

45. We do not agree with the IASB’s preliminary view that it should develop proposals to remove the requirement to perform a quantitative impairment test every year. In our view, the impairment test continues to be an important tool in holding management to account for acquisition decisions and can provide useful information for users. While we acknowledge that improvements could be made to the effectiveness of the impairment test (as discussed elsewhere in our response) we do not believe that the requirement to perform the test annually should be removed on the basis that it can be complex and costly.

46. Indeed, we question whether costs would be significantly reduced by this proposal. Many companies will need to keep their systems up to date with relevant information, even if the impairment test is not performed annually. Also, companies conducting impairment tests on an annual basis will most likely have well-established processes in place which will have

developed over time, improving the overall quality and efficiency. Further, this proposal would inevitably add a new matter for judgement by companies and auditors in determining whether or not there has been an indication of impairment in the period.

47. We also note that there is already an option under IAS 36.99 to allow a rollover of the impairment test in certain situations. With all these factors in mind, we believe the cost savings from removing the requirement to perform a quantitative impairment test might be limited.

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.

48. Yes, we agree with the 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 in value in use calculations. In our view, this change would lead to better predictions of cash flows. However, as noted below, it might be useful to add guidance on the suitable evidence needed when estimating cash flows.

49. We also agree with the proposal to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use. We suggest that further guidance would be needed to explain how this would interact with other tax elements of the impairment test, such as the treatment of deferred tax.

50. We have observed that the above amendments would largely remove the main difference between the existing 'value-in-use' and 'fair value less costs to sell' calculations for the recoverable amount of goodwill. Assuming these proposals go ahead, we suggest that a further improvement could be made to the impairment test by removing this distinction. That is, the impairment test for goodwill would require a comparison of the carrying value versus recoverable amount (which would generally be a discounted cash flow calculation).

51. We note that IAS 36 already sets out requirements for estimating future cash flows. In our view, these requirements are sufficiently clear and comprehensive. We are not aware of any new elements of discipline which could helpfully be added to the existing requirements in IAS 36 for estimating cash flows. However, it would be helpful for the standard to have more guidance regarding the evidence that might be needed to satisfy the requirement for future cash flow estimates to be reasonable and supportable. In particular, we have in mind the extent to which external evidence is required to support the assumptions used. The standard could refer to sources such as independent economic forecasts, and add a requirement to discuss any differences between these sources and the entity's assumptions.

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?

52. We agree with the IASB's decision not to develop these simplifications to the impairment test as outlined in the discussion paper.
53. Other than our comments in relation to question 10, we have not identified any further ways of reducing the cost and complexity of performing the impairment test for goodwill, without making the information provided less useful to investors.

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?

54. We are satisfied that the IASB has looked at this difficult question carefully and has taken account of the research and the findings of other regulators. Therefore, we accept the IASB's conclusion that it should not develop a proposal to allow some intangible assets to be included in goodwill.
55. However, if goodwill were to be amortised (for example, over 20 years), there would be less reason for separating other indefinite-life intangibles which might be amortisable over the same period.

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?

56. While it would certainly be regrettable if a major difference between US GAAP and IFRS were to develop, this would not change our answers the questions in the discussion paper.

Question 14. Do you have any other comments on the Board's preliminary views presented in this Discussion Paper? Should the Board consider any other topics in response to the PIR of IFRS 3?

57. We assume that, in developing the disclosure proposals outlined in this discussion paper, the IASB will keep in mind developments arising from its broader disclosures project, in particular the need for clear disclosure objectives.
58. It may be helpful for the IASB to consider whether there are any implications for this project arising from the proposals in the discussion paper on investments in joint ventures and associates accounted using the equity method (ie, where goodwill is embedded in the carrying amount of the investments).