International Accounting Standards Board (IASB)
30 Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

7 January 2021

Dear Board Member,

Re: DP/2020/1: Business Combinations-Disclosures, Goodwill and Impairment

BUSINESSEUROPE is pleased to provide comments on the Discussion Paper: Business Combinations-Disclosures, Goodwill and Impairment (the DP). Our comments in relation to the specific questions posed are to be found in the appendix, but we would draw the following major concerns to your attention:

- The proposals to make mandatory the disclosure of information of a potentially confidential or sensitive nature, including quantitative metrics, could, in our view, be very damaging to certain reporting entities. This will particularly be the case where an individual acquisition is only one step on the path to achieving a business strategy, as such detail may allow competitors to pre-empt the subsequent steps and others to benefit from the targeted economic gains. In addition, the detailed disclosure of objectives and the degree of their achievement might open up the entity to hostile litigation. Finally, where integration is rapidly and effectively achieved, an entity may conclude that onerous monitoring of actual outcomes against theoretical pre-acquisition performance is unnecessary. In such cases, the requirements about providing metrics or explaining their absence will put them under pressure to expend effort carry a monitoring activity that is of no real value. We suggest that information of this nature would be better suited to inclusion in the Management Commentary where judgment about the content can be applied more appropriately.

- The proposals to simplify the goodwill impairment test are welcome and would assist some entities in lightening the burden of the current approach. However, not all our members would adopt the proposed approach, and none of our members have concluded that the benefit of the simplification would justify their acceptance of the apparent and hidden costs of having to provide the additional disclosures discussed above.

- The issue of maintaining a "level playing-field" with US GAAP is very important. European companies believe that current disclosure requirements place them at a disadvantage compared with their US competitors and the proposals of the DP would certainly deteriorate the situation.

If you require any further information upon any of these matters, please do not hesitate to contact us.

Yours sincerely,

Erik Berggren
Senior Adviser

APPENDIX

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?*

The discussion in paragraphs IN50 to IN53 implies that the Board considers that the proposals of the Discussion Paper (the DP) are very much a package to be taken or rejected as a whole. Thus, if entities wish to benefit from the proposals to reduce the cost and complexity of the current impairment test for goodwill, then the price to be paid is the provision of additional detailed information about an acquisition and its subsequent performance. The Board's view would appear to be that the costs of providing the additional information would be compensated for by the benefit of the reduction in the complexity of the impairment test.

If this is a fair representation of the Board's approach, then we disagree with it entirely.

Some of the individual proposals, such as those aimed at simplifying the impairment test, would be very beneficial to many preparers and should be implemented irrespective of the decisions made about other "linked" proposals. Other proposals, such as those relating to the monitoring of the performance of acquisitions are potentially so damaging to the competitiveness of entities reporting under IFRS that they cannot be accepted by European companies in the absence of similar requirements in other reporting frameworks – notably in US GAAP.

We think that the Board should justify its cost/benefit conclusions by explaining how it has evaluated the costs relating to the benefits it anticipates and how it takes into account the potential competitive damage that the increased disclosures might cause to the reporting entity. It would be unfortunate, if not invidious, to make the retention of the better proposals conditional on the acceptance of the unacceptable proposals as part of a "deal".

There is, however, one over-riding consideration in the area of “linkage” - that the IFRS requirements should not place more stringent and wider requirements on reporting entities than US GAAP imposes on its reporting entities.

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?***

We think that much of the information requested corresponds to the principles of the IFRS Practice Statement on Management Commentary and that the management report might therefore be a more appropriate location for the additional information proposed in the DP. Management would apply judgment on the level of detail required in the light of the sensitivity of the information.

The term "investors" includes both existing shareholders and potential shareholders. It is important to ensure that the information deemed to be required for potential investors does not in effect deteriorate or destroy the potential value of the acquisition for both categories of investors. The nature and detail of the information required needs to be very carefully defined in order to protect confidential and commercially-sensitive information and to avoid expending effort on generating quantitative data that neither shareholders nor management require. We think that the additional information the DP proposes as mandatory is actually aimed at the needs of investment advisors whose exposure might not be aligned with that of their clients.

It seems reasonable to disclose the strategic rationale for the acquisition and the management's objectives (as described in paragraph 2.45 (a)). It may also be reasonable to require management to describe how it will monitor and assess the success of the acquisition. However, to go further than this would be damaging to entities which report under IFRS. We think that while it is reasonable that shareholders should have sufficient information to be able to hold management to account for their actions, the information required must not lead to damage to the interests of shareholders or potential shareholders.

However, the requirement to provide explicitly and in detail the actual quantitative metrics used by the entity creates the risk of the entity eroding the competitive advantage the acquisition was intended to provide, by opening up the entity to the scrutiny of competitors and others who wish to benefit from such insight. In some circumstances, such as when specific expected synergies or other benefits are not achieved, the entity could be laid open to litigation. Furthermore, full realisation of the synergies could be dependent upon a series of acquisitions within the strategy, and premature disclosure of the expected final expected outcome could be self-defeating. Former shareholders of the target could sue the former management for not having realised the potential of that entity, and shareholders of the acquirer, including non-controlling interests, could sue if the expected potential is not achieved thereafter. Explicit detail could also lead to difficulties or litigation with tax authorities (in the realm of transfer pricing, for example), with regulators and competition authorities in some jurisdictions (in respect of the price

of the acquisition and the competitive positioning, for example) or with former owners (in respect of contingent consideration). Such situations would be detrimental to existing shareholders and to the capital markets in general, as it could be expected to dissuade entities from engaging in acquisition activity. It is not surprising that US GAAP does not require such detail.

In addition, entities which do not develop through acquisition but through internal or “organic” growth would be placed in an advantageous position as they would not be required to provide comparable information.

A key obstruction and argument against the proposed disclosures is the very rationale behind an acquisition: acquiring companies usually try to integrate the acquired businesses into the existing organisation as soon as possible to realise the expected synergies. Hence, the combined business as a whole is subject to Management’s monitoring, and separate measures capturing the acquired business and the integrating business separately are simply not available any longer.

Finally, the requirement (iii) to state why the entity does not monitor an acquisition seems to us to be an attempt to force entities to disclose the metrics it uses by the method of “naming and shaming”. As stated above there are a number of valid reasons why an entity might not be able to dispose of the metrics without incurring additional cost and effort, or might wish to maintain confidentiality and restrict the information provided. The requirements as they are proposed are too “black or white”: an entity should be allowed to state that it is monitoring the acquisition but that for reasons of confidentiality and commercial sensitivity it chooses not to disclose the metrics.

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?

As suggested in our response to Question 2, these disclosure objectives are reasonable. The IASB could also provide non-mandatory examples of what could be disclosed in order to help entities to arrive at a suitable set of information which would represent a good balance between cost and usefulness without destroying entities’ competitive advantages. What is not reasonable, as discussed above, is to define requirements for the disclosure of quantitative detail which the Board thinks are essential to satisfy such objectives. It should be left to entities to judge what is appropriate in the light of their competitive position in the markets in which they operate.

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?

The narrative disclosure requirements included above (from paragraph 2.64) would be acceptable provided that they remain at a high level and do not make mandatory the disclosure of detailed quantitative information. In addition to the matters discussed in our response to Question 2, we would suggest that no sensitive information should be provided in the financial statements beyond that which is required in the relevant jurisdiction as part of the prospectus and acquisition documentation that has to be provided to shareholders in order for them to approve the transaction. To require more than this would open up entities to potential litigation. Although the focus of the DP seems to be on synergies, these comments apply equally to other components of goodwill and the detail relating to other objectives of the transaction.

We do not agree with the statement made in paragraph 2.67 that information about expected synergies is not forward-looking information. In our view, at the time these estimates are made they reflect the management's expectations of what can be achieved and are clearly forward-looking estimates as defined in the Management Commentary Practice Statement. Indeed, the reporting of expected and achieved synergies is very much a hypothetical exercise, as it is rare that all other relevant aspects of the economic environment remain unchanged at the same time. It would be unwise to provide any such sensitive quantified detail even if the jurisdiction in which the entity operates allows it to benefit from a "safe-harbour" protection to the extent that the outcome is different from the expectation, since such quantified targets or estimates of potential could be deemed to be formal commitments.

We do not think that it is necessary to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities. The requirements of current IFRS 3.B64 when read in conjunction with IAS 1 are sufficiently clear. Such disclosures are subject to materiality and management judgment.

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?

(a) We agree that the Board should retain the requirement to provide pro-forma information for revenue and profit or loss as if the acquisition had occurred at the beginning of the annual period. However, we would emphasise that the preparation of such information can be a very onerous exercise, particularly when the target is not already subject to the body of IFRS. The acquirer will seldom have easy access to the necessary pre-acquisition-date information to carry out the adjustments to align the accounting policies of the acquiree and the acquirer and to make the necessary intra-group adjustments for the new consolidated reporting entity. It will have to make a number of assumptions and allocations which are of necessity arbitrary. The resulting figures will frequently not be auditable to the same level of assurance as the post-acquisition consolidated figures. It is useful information but should not be subject to detailed requirements in IFRS.

(b) We do not think that any further guidance is required in respect of the preparation of pro-forma information. In our view, a sufficient body of experience and best practice has been developed to ensure that entities can produce this information in a reliable manner.

(c) The pro-forma information is most useful when it corresponds exactly to the format of entity's standard financial statement format. Most entities provide a profit-or-loss figure before acquisition-related transaction and integration costs. In view of the current project on presentation of the income statement it may be premature to require use of the line "operating profit" for this disclosure, and in addition, the items which the Board proposes to exclude from the operating profit in its financial statement presentation project (FSP) may actually be important components of the results of the consolidated entity. These could include equity-accounted entities and financing items. Finally, we are uncertain whether the acquisition and integration costs would necessarily meet the

conditions of the FSP for exclusion from the future "operating profit" sub-total. It would be better to allow entities to present what they think is the most appropriate format whilst retaining the net profit or loss as the anchor point.

Cash flow statements tend to be quite different in format between entities and accounting frameworks. We are not convinced that the introduction of the cash flow from operating activities would be easy to determine on a pro-forma basis as it might require a detailed analysis of many underlying line-items. This may be a "nice-to-have" piece of information, the cost of production of which may be difficult to justify in view of its limited usefulness, as indicated above.

If the Board wishes to pursue this new element, then it should in our view make a clear and convincing case for its introduction at this stage. The DP itself contains little to convince on this point.

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?

(a) and (b) We agree that it is not feasible to devise an impairment test that it is significantly more effective than the current one.

(c) We agree that shielding is an aspect that can cause concern but this effect is a logical consequence of acquisition accounting. This effect would be avoided if internally - generated goodwill was recognised, but we are not convinced that is something that the Board should pursue.

We think that management optimism, if one wishes to call it that, is an essential and natural aspect of human enterprise. Without the expectation of success nothing new would be undertaken. The opposite, i.e., a pessimistic view that the long-term will be as poor as the current conditions can also be damaging to an entity's future. It seems a

reasonable compromise that the management should take a realistic long-term view of economic conditions, particularly given the nature of goodwill and what it represents, and that the balance-sheet date economic conditions should not be automatically assumed to be a long-term state. The current COVID-related crisis is a good example of a situation where it would be overly pessimistic to write down goodwill on the basis of conditions over a short period, particularly since the recoverable amount is mainly driven by the terminal value which is based on the long-term steady state of a business. We think that robust and lucid challenge from auditors will ensure that the management is not unreasonably optimistic.

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?

A majority of Business Europe members are in favour of the amortisation of goodwill. This view is based on the following:

a) Acquired goodwill is an asset that is consumed over time, particularly in a competitive environment, and is replaced by internally generated goodwill over time. Amortisation ensures that acquired goodwill is recognised in profit or loss and not compensated for by the recognition of internally generated goodwill.
b) Even though it may be difficult in some instances to estimate the useful life of goodwill, that is also the case for many items of property, plant and equipment or intangible assets. Amortisation is necessary to reflect this economic phenomenon and to attempt to match the consumption of the costs and the

benefits of the transaction. Amortisation is consistent with the approach taken for other intangible and tangible assets that do not have indefinite useful lives, and there is no conceptual reason for treating acquired goodwill differently.

c) Amortisation provides a practical solution for the subsequent accounting for goodwill, in that it obviates the need for a systematic and recurrent impairment test, which companies generally find onerous and of no use for internal management purposes.

Most members believe that it is possible to estimate the useful life of goodwill on a sufficiently reliable (or reasonable) basis using the economic assumptions that were used to price the transaction originally.

Finally, some members think that the allowing of the amortisation of goodwill would provide relief from the burden and consequent cost of searching for and measuring the acquiree's unrecognised intangibles which are currently required to be recognised and amortised separately from goodwill.

In contrast, some members consider the "impairment-only" approach to be more conceptually robust and more relevant to financial statements than the "amortization and impairment approach". They argue that the goodwill initially recognised is in some instances not replaced by internal goodwill but is rather sustained by rationalisation activity and future investment. In addition, there are some items acquired that often cannot be recognised separately as assets but which are of potentially indefinite life, such as, for example, synergies or access to a new market. It is also arguable a whether a premium paid to secure an acquisition is an asset, and its economic life is certainly impossible to assess. Moreover, the cessation of amortisation at the end of the economic life of goodwill can lead to a significant step-up in net profit which is difficult to link to a real economic event. In the view of these members, the best way to resolve such issues is to include these elements in goodwill and test them systematically for impairment.

However, the impairment test requires a lot of judgment (in respect of the definition of CGUs, preparation of future cash flow projections, calculation of the cost of capital, etc.), and the practical problems can outweigh the intended benefits. The information generated from annual impairment testing is not generally of use to management, can result in disclosures of competitive-sensitive information and is seen as an administrative burden.

On balance, we suggest that the following approach would be reasonable: there should be a rebuttable presumption that acquired goodwill has a finite useful life which the entity can estimate sufficiently reliably. Goodwill should be amortised over this period. Where the entity can demonstrate on a continual basis that goodwill has an indefinite useful life, or that the useful life cannot be estimated reliably, the entity should be required to apply an "impairment-only" approach as at present. This approach would be consistent with that of IAS 38 for certain other intangible assets.

We note that the FASB decided in July 2020 to explore further amortisation of goodwill. We respectfully suggest that the IASB work closely with the FASB on this topic.

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?

We are bemused by this proposal. The sub-total required can easily be arrived at by any user from current disclosures and presentation, particularly in view of the proposals of the General Presentation and Disclosure project. The fact that the IASB makes the above proposal implies that it believes that the elimination of goodwill against equity would be a preferable approach to the accounting for goodwill even though it has rejected it in the past.

We are opposed to this proposal as it will result in mixed messages on the balance sheet about the validity of current goodwill accounting and would require additional effort for no perceivable useful purpose, other than to make life easier for a small group of users.

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 agree with this proposal to carry out impairment tests on the basis of an indicator of impairment, as is the case for other fixed assets. This would enable entities to avoid going through the detailed calculation when it is clear that there is no impairment. Entities would still have to perform sufficient analysis of the performance of CGU's to which goodwill has been allocated in order to identify triggers for impairment just as they do at present in respect of individual assets in order to justify the book value to auditors. This approach should not preclude entities, which wish to do so in accordance with their internal process, from performing a full or a light impairment test as part of their analysis. We consider that this level of analysis would ensure that the robustness of the impairment test would not suffer.

However, although we think that this is simplification which would lead to a reduced effort in some entities, we do not think that such a simplification is so important that companies would be willing to provide the increased disclosures discussed in earlier questions in exchange.

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

We agree that companies should be able to include certain future cash flows in the estimation of value in use that are currently excluded. This would be consistent with the way entities actually manage their long-lived assets and hence more realistic. However, in order to guarantee the robustness of the test, such elements should be reasonable planned and approved, in principle at least, by senior management.

• 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).

We agree. The pre-tax discount rate is generally not observable and has to be derived from the weighted average cost of capital (WACC) which is a post-tax rate. The derivation of the pre-tax rate from the WACC is onerous.

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.

We think that these proposals would significantly improve the realistic nature of the test and reduce the effort in its performance and that the Board should pursue these two modifications to the impairment test even in the absence of the other proposed amendments. Furthermore, they should also be made available for other fixed assets in the interest of simplification and consistency.

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?

We agree with the Board that additional guidance is not necessary either on the entity-specific inputs to be used or on the identification of cash-generating units, and that it should not mandate only one method for estimating the recoverable amount.

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
(c) Would your view change if amortisation of goodwill were to be reintroduced? Why or why not?

a) We do not agree. We believe that currently preparers experience pressure in being required to identify all intangible assets in business combinations. Clearly, that pressure would be reduced if the Board were to allow the amortisation of goodwill. However, if the Board decides to proceed with the impairment-only approach, we strongly urge it to review the requirements for the identification of intangible assets in order to make them easier to apply. This could be carried out either within this project or as part of a separate project, the latter of which could also examine IAS 38 in the light of potentially new types of tangible asset created by new ways of doing business.

b) We believe that the information value for investors would not be diminished if the Board were to pursue either proposal outlined in our answer to question 12 (a).

c) If goodwill amortization is re-introduced then the separation of intangibles from goodwill can be limited to some clearly identifiable intangibles. The purchase price allocation might be significantly simplified.

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?

If US GAAP evolves to permit amortisation of goodwill for all companies, then IFRS should accompany it.

For major European entities competing for capital with companies using US GAAP the maintaining of a level playing field is very important in general, and essential in the area of disclosures European companies should not be required to provide more competitor-sensitive information than that demanded by US GAAP.

Members have the impression that US companies disclose less information about acquisitions in the notes to the financial statements and more in MD&A/management commentary than users of IFRS. Perhaps the Board would consider looking into this aspect of the issue.

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?

We suggest that the Board might reconsider whether the benefits of the following current disclosure requirements in IFRS 3 really outweigh the costs for preparers.

According to IFRS 3.B64(m) financial statements preparers need to disclose the amount of acquisition related costs and, separately, the amount of those costs recognised as an expense and the line item or items in the statement of comprehensive income in which those expenses are recognised. The amount of any issue costs not recognised as an expense and how they were recognised shall also be disclosed. In our experience, such detailed presentation requires an onerous analysis in addition to the ongoing accounting exercise. We question whether this information is useful for investors since their valuation models are generally based on cash flows and not on expenses analysis for individual items.

IFRS 3.B64(q)(ii) requires financial statements preparers having acquired other companies to provide the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. This kind of pro forma reporting (see Question 5) is cost-intensive for preparers and might not be very useful for investors since it is backward looking and to some extent arbitrary since there is a high degree of uncertainty how the hypothetical past might have looked had the acquisition occurred earlier.

***