Comment Letter on the EFRAG DCL on Exposure Draft Business Combinations—Disclosures, Goodwill and Impairment

President of the EFRAG Financial Reporting Board

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Madrid, 28th June 2024

Dear Wolf,

The Instituto de Contabilidad y Auditoria de Cuentas (ICAC) welcomes the opportunity to express its comments on the IASB's initiative. We recognise the importance of this project and the IASB's leadership in this project.

Given that business combinations are crucial transactions for the global economy, the ICAC recognizes the need to optimize the application of the impairment test of cash-generating units containing goodwill. In addition, this Institute supports the provision of more useful and relevant information to users about these business combinations. In this context, we express our sincere acknowledgment to the IASB for its dedication and efforts in the analysis and development of the Exposure Draft (ED)

Overall, we welcome the IASB's proposals, understanding that these amendments will help to address the current challenges related to the complexity of applying the impairment test to cash-generating units containing goodwill. Furthermore, we recognise that the new required disclosures will improve the understanding of companies' disclosures in relation to business combinations.

Regarding the position of EFRAG developed in the DCL of the Exposure Draft Business Combinations—Disclosures, Goodwill and Impairment, this Institute supports in general terms the doubts and suggestions addressed by the EGRAG.

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The appendix to this letter sets out our responses to the questions in the Exposure Draft.

We would like to end this letter by thanking you for the opportunity to allow this Institute to participate in this comment process and hope that our input will contribute to the development of the project.

Please don't hesitate to contact us if you would like to clarify any point of this letter.

Yours sincerely,

Santiago Durán Domínguez

Chairman of the ICAC

APPENDIX

Question 1 - Disclosures: Performance of a business combination (proposed paragraphs B67A–B67G of IFRS 3)
In the PIR of IFRS 3 and in responses to the Discussion Paper the IASB heard that: • Users need better information about business combinations to help them assess whether the price an entity paid for a business combination is reasonable and how the business combination performed after acquisition. In particular, users said they need information to help them assess the performance of a business combination against the targets the entity set at the time the business combination occurred (see paragraphs BC18–BC21). • Preparers of financial statements are concerned about the cost of disclosing that information. In particular, preparers said the information would be so commercially sensitive that its disclosure in financial statements should not be required and disclosing this information could expose an entity to increased litigation risk (see paragraph BC22). Having considered this feedback, the IASB is proposing changes to the disclosure requirements in IFRS 3 that, in its view, appropriately balance the benefits and costs of requiring an entity to disclose this information. It therefore expects that the proposed disclosure requirements would provide users with more useful information about the performance of a business combination at a reasonable cost. In particular, the IASB is proposing to require an entity to disclose information about the entity's acquisition-date key objectives and related targets for a business combination and whether these key objectives and related targets are being met (information about the performance of a business combination). The IASB has responded to preparers' concerns about disclosing that information by proposing: • to require this information for only a subset of an entity's business combinations—strategic business combinations (see question 2); and • to exempt entities from disclosing some items of this information in specific

circumstances (see question 3).

a) Do you agree with the IASB's proposal to require an entity to disclose information about the performance of a strategic business combination, subject to an exemption? Why or why not? In responding, please consider whether the proposals appropriately balance the benefits of requiring an entity to disclose the information with the costs of doing so.

b) If you disagree with the proposal, what specific changes would you suggest to provide users with more useful information about the performance of a business combination at a reasonable cost?

ICAC´s Response

In view of the difficulties that have been identified in the development of the project to respond to the deficiencies that were highlighted in the review of the PIR of IFRS 3 by stakeholders, mainly that the impairment of goodwill was occurring too late and too little, we believe that the demand for greater information requirements in relation to strategic business combinations can benefit a better valuation of the business combination and therefore the goodwill that arises, both in the year in which the combination occurs and in the subsequent years in which the goodwill is kept in the accounts. Above all, quantitative information on the synergies is relevant, as well as an estimate of how long they are expected to last and from when the returns from them will be obtained.

One of the shortcomings highlighted in the PIR of IFRS 3 is the lack of information received by users in business combinations, mainly in the years following the combination, whereby users assessed the success or failure of the combination through the information obtained from goodwill impairments.

On the other hand, the information that entities have to disclose about the key objectives and targets of a business combination at the acquisition date and whether these key objectives and targets are being met may, in some cases, be commercially sensitive information and may affect the achievement of the objectives of the business combination.

The ICAC agrees with the proposal made by the IASB where a consensus is reached between users and preparers, with the former obtaining relevant information for the valuation of the strategic business

combination and with the possibility for preparers to apply an exception in those cases in which the disclosure may affect the achievement of the achievements and objectives of the combination.

We believe that the proposal adequately balances the benefits to be obtained from the disclosure of information, both by users and by the greater control established both internally and externally by having to disclose the information, so we believe that the benefits justify the higher costs that the obligation to disclose the information may represent.

The fact that each entity provides the information that is used internally from management eliminates the rigidity and cost of having to prepare information that may not be useful for management and therefore avoids the information disclosed being a formality that also provides little useful information for users.

Questions to Constituents

Do you consider there are cases that do not fall within the scope of the exemption where providing the proposed performance information can be so commercially sensitive that would pose a serious concern if disclosed in the financial statements? If so, please provide examples of these cases and explain why you would be unable to use the exemption.

An exemption has been established to avoid the situation where providing the information represents a concern for its disclosure. The exemption for its application does not list a number of specific situations, but only states that it can be applied when disclosing the information would seriously jeopardize the achievement of the objectives. By drafting the exemption in an open application, it is understood that if a serious concern is raised, it would ultimately jeopardize the achievement of the objectives, not only of the acquired business, but also of the business combination, as well as of the acquirer.

Do you consider there could be business combinations for which providing integrated performance information will be useful to users of financial statements? If not, please provide examples of such cases and what specific changes to the proposed disclosures you suggest.

Do you consider that providing information on actual performance per paragraphs B67A (b) (i) and (ii) will be useful in all cases? If not, please provide examples when either of these proposed disclosures would not be useful and why.

Question 2 - Disclosures: Strategic business combinations (proposed paragraph B67C of IFRS 3)
The IASB is proposing to require an entity to disclose information about the performance of a business combination (that is, information about the entity's acquisition-date key objectives and related targets for the business combination and whether these key objectives and related targets are being met) for only strategic business combinations—a subset of material business combinations. A strategic business combination would be one for which failure to meet any IASB ED Business combinations – Disclosures, Goodwill and Impairment one of an entity's acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy. The IASB is proposing that entities identify a strategic business combination using a set of thresholds in IFRS 3—a business combination that met any one of these thresholds would be considered a strategic business combination (threshold approach) (see paragraphs BC56–BC73). The IASB based its proposed thresholds on other requirements in IFRS Accounting Standards and the thresholds regulators use to identify particularly important transactions for which an entity is required to take additional steps such as providing more information or holding a shareholder vote. The proposed thresholds are both quantitative (see paragraphs BC63–BC67) and qualitative (see paragraphs BC68–BC70). (a) Do you agree with the proposal to use a threshold approach? Why or why not? If you disagree with the proposal, what approach would you suggest and why? (b) If you agree with the proposal to use a threshold approach, do you agree with the proposed thresholds? Why or why not? If not, what thresholds would you suggest and why?

ICAC´s Response

We agree with the use of a threshold approach, as we believe it is a balanced way of not requiring all entities to report, in some cases making the information irrelevant and increasing the cost. We also agree with only those entities that are considered strategic should report. ICAC supports the proposal of the threshold approach based on a closed list, because it requires less judgment and is easier to check and enforce. On the other hand, applying both qualitative and quantitative double thresholds reduces the risk that some truly strategic combinations do not fall within the thresholds, and therefore do not disclose information. However, consideration could be given to adding a final point specifying that, if the entity assesses that the business combination is strategic, although it is not included in the required thresholds that it should also disclose, this point could accommodate acquisitions of serial businesses that together would give rise to a strategic business combination.

With respect to the proposed thresholds, we believe that they are appropriate based on the justification provided by the IASB in its choice of thresholds.

Question to Constituents

Do you expect to have difficulties in applying either the proposed quantitative or the qualitative thresholds? If so, please explain why.

N/A

Have you identified cases where applying an open-list approach would be more appropriate than the proposed closed-list approach? If so, please explain.

In view of the process of limiting the disclosure of information to only those business combinations that are considered strategic, we consider the closed list approach the most appropriate because objective parameters are given to limit to a subset of the business combinations about which certain information must be disclosed, but initially such information would be required for all combinations, so this is a consensus measure to not increase too much the expense of preparers and provide information to users. Applying an open list is more costly because it requires more judgment, it is more difficult to check, and comparability is lost.

Do you consider there could be cases where the 10% measure proposed for the quantitative thresholds (based on the acquirer's consolidated operating profit, revenue and total assets) would not be appropriate, as it would still capture small business combinations (if 10% is too low) or omit to

capture "'strategic"' acquisitions (if 10% is too high)?, If so, in which cases and which other measure would you propose?

The criteria considered by the IASB to determine the 10% of the proposal seem appropriate.

However, it could be considered to add a last point specifying that if the entity assesses that the business combination is strategic, even if it is not included in the required thresholds, it should also be reported. With this point, it could be accommodated the acquisitions of businesses in series that together would give rise to a strategic business combination.

Do you consider it useful to have guidance on assessing whether a series of business combinations could in aggregate be strategic?

We agree with the IASB that the diversity of reasons that can make a series of business combinations strategic is so wide that it would be difficult to produce a guide establishing criteria to be followed.

Question 3—Disclosures: Exemption from disclosing information (proposed paragraphs B67D–B67G of IFRS 3)
The IASB is proposing to exempt an entity from disclosing some of the information that would be required applying the proposals in this Exposure Draft in specific circumstances. The exemption is designed to respond to preparers' concerns about commercial sensitivity and litigation risk but is also designed to be enforceable and auditable so that it is applied only in the appropriate circumstances (see paragraphs BC74–BC107). The IASB proposes that, as a principle, an entity be exempt from disclosing some information if doing so can be expected to prejudice seriously the achievement of any of the entity's acquisition-date key objectives for the business combination (see paragraphs BC79–BC89). The IASB has also proposed application guidance (see paragraphs BC90–BC107) to help entities, auditors and regulators identify the circumstances in which an entity can apply the exemption. (a) Do you think the proposed exemption can be applied in the appropriate circumstances? If not, please explain why not and suggest how the IASB could amend the proposed principle or application guidance to better address these concerns. (b) Do you think the proposed application guidance would help restrict the application of the exemption to only the appropriate circumstances? If not, please explain what application guidance you would suggest to achieve that aim.

ICAC´s Response

ICAC agrees with IASB on the need to establish an exemption in cases where there are circumstances in which the disclosure of the information would jeopardize the achievement of the key objectives for which the business combination is made.

We believe that the exemption will be applicable in appropriate circumstances as it only provides guidance for the consideration of the entities, and it is up to the entities to apply it on a judgmental and reasoned basis in each individual case.

With respect to whether the proposed application guidance would help to restrict the application to only appropriate circumstances, we believe that the application guidance, in paragraph B67E and its elaboration in B67F states that if, instead of applying the exemption, it would be possible to disclose the information in a different way, for example at a sufficiently aggregated level, the information would need to be disclosed in that different way. However, in these cases it seems appropriate for the company to explain the fact that the information is disclosed in a different way to avoid having to apply the exemption and thus disclose some information. This mention would prevent:

- That companies could use this paragraph as an escape route for disclosing information.

- By not mentioning that it is applying paragraph B67E, as a way to avoid applying the exemption, information and comparability between companies would be lost.

- On the other hand, by applying paragraph B67E when not applying the exemption, paragraph B67G would no longer apply and the entity providing information in a different way to that required by the standard would no longer have to reassess at the end of each reporting period whether the item is still eligible for the exemption and would not have to disclose information about it.

We therefore propose that paragraph B67E should require entities to expressly mention the fact that they are providing information in a different manner to avoid applying the exemption.

Question to Constituents

Do you consider that the IASB should suggest further application guidance and/or include illustrative examples to clarify the meaning of the "specific circumstances" that the exemption would be applied? If so, what application guidance or illustrative examples would you suggest?

From the text included in the standard and the basis for conclusions it can be extracted that the application of the exemption has to be made with good reason, so including a guide with illustrative examples of the specific circumstances may seem that when such circumstances are present, the exemption would be directly applicable, and this is not the case. On the other hand, as there are so many different jurisdictions that are affected by the standard, it is complicated to make a guide of examples with the appropriate circumstances for all of them (what in the regulations of one jurisdiction may make an exception applicable in another may not be applicable in another).

On the other hand, with respect to the application guide, we consider that clarification would be necessary in those situations where it is permitted to provide information in a different manner from

that required by the standard to avoid having to apply the total exemption from disclosing information.

Question 4—Disclosures: Identifying information to be disclosed (proposed paragraphs B67A–B67B of IFRS 3
The IASB is proposing to require an entity to disclose information about the performance of the entity's strategic business combinations (that is, information about its acquisition-date key objectives and related targets for a strategic business combination and whether these key objectives and related targets are being met) that is reviewed by its key management personnel (see paragraphs BC110–BC114). The IASB's proposals would require an entity to disclose this information for as long as the entity's key management personnel review the performance of the business combination (see paragraphs BC115–BC120). The IASB is also proposing (see paragraphs BC121–BC130) that if an entity's key management personnel: · do not start reviewing, and do not plan to review, whether an acquisition-date key objective and the related targets for a business combination are met, the entity would be required to disclose that fact and the reasons for not doing so; · stop reviewing whether an acquisition-date key objective and the related targets for a business combination are met before the end of the second annual reporting period after the year of acquisition, the entity would be required to disclose that fact and the reasons it stopped doing so; and · have stopped reviewing whether an acquisition-date key objective and the related targets for a business combination are met but still receive information about the metric that was originally used to measure the achievement of that key objective and the related targets, the entity would be required to disclose information about the metric during the period up to the end of the second annual reporting period after the year of acquisition. (a) Do you agree that the information an entity should be required to disclose should be the information reviewed by the entity's key management personnel? Why or why not? If not, how do you suggest an entity be required to identify the information to be disclosed

about the performance of a strategic business combination?

(b) Do you agree that:

(i) an entity should be required to disclose information about the performance of a business combination for as long as the entity's key management personnel review that information? Why or why not?

(ii) an entity should be required to disclose the information specified by the proposals when the entity's key management personnel do not start or stop reviewing the achievement of a key objective and the related targets for a strategic business combination within a particular time period? Why or why not?

ICAC´s Response

The ICAC considers that the proposed timeframe set out in paragraph B67B(b) of the ED (two full years after the year of acquisition of a business combination) is a reasonable minimum period for the disclosures to be made.

The ICAC supports the IASB's proposal in paragraph B67B of the ED to establish a base period for disclosing information about the performance of a business combination for as long as the entity's KMP continues to monitor it against its key objectives and targets at the acquisition date.

In cases where an entity's KMP has not started to review and does not plan to review the required information (whether the key objectives and related targets of strategic business combinations are being met), the ICAC also supports the proposal that an entity disclose that fact and the reasons for not reviewing the information, as it will be useful for users to understand why an entity does not monitor a strategic business combination.

However, with respect to the length of time that should require an entity to disclose the information, we consider that a reasonable minimum period for reporting the progress of the strategic business combination should be established. We understand that the period of two full years after the year of acquisition of a business combination, although arbitrary, is a reasonable period for disclosure. We consider that during that period information should be disclosed either on the comparison between the

actual metrics and the proposed targets or that it is not being reviewed, from that year or the previous year, but that mention is made of the fact that it is within the full two-year period after the monitoring.

ICAC considers that the proposed timeframe set out in paragraph B67B(b) of the ED (two full years after the year of acquisition of a business combination) is a reasonable minimum period for disclosure.

Question to Constituents

Do you consider the proposed level of KMP to be appropriate? If not, which level would you consider to be appropriate and why?

We do consider the proposed level of KMP as defined in IAS 24 to be appropriate. We also consider the clarification in IAS 36 that the level of management oversight for the purposes of subsequent performance may not be the same as the level of management oversight of the business associated with the goodwill for the purposes of impairment testing to be appropriate.

With respect to the period that an entity should be required to disclose the information, we consider the period of two full years after the year of acquisition of a business combination to be a reasonable minimum period for disclosure. However, the standard establishes it as a basic period in which, depending on how long the KMP reviews the information to be disclosed, the information will be disclosed in a period longer or shorter than those two years. In this regard, the ICAC considers that the two-year period should be a minimum and that during that period, either the comparison between the actual metric and the proposed targets or that it is not being reviewed, from that year or the previous one, but that mention is made of the fact that it is within the full two-year period following a relevant business combination, should be disclosed in any case.

Question 5 - Disclosures: Other proposals. The IASB is proposing other amendments to the disclosure requirements in IFRS 3.
These proposals relate to: New disclosure objectives (proposed paragraph 62A of IFRS 3) The IASB proposes to add new disclosure objectives in proposed paragraph 62A of IFRS 3 (see paragraphs BC23–BC28). Requirements to disclose quantitative information about expected synergies in the year of acquisition (proposed paragraph B64(ea) of IFRS 3) The IASB proposes: · to require an entity to describe expected synergies by category (for example, revenue synergies, cost synergies and each other type of synergy); · to require an entity to disclose for each category of synergies: · the estimated amounts or range of amounts of the expected synergies; · the estimated costs or range of costs to achieve these synergies; and · the time from which the benefits expected from the synergies are expected to start and how long they will last; and · to exempt an entity from disclosing that information in specific circumstances. See paragraphs BC148–BC163. The strategic rationale for a business combination (paragraph B64(d) of IFRS 3) The IASB proposes to replace the requirement in paragraph B64(d) of IFRS 3 to disclose the primary reasons for a business combination with a requirement to disclose the strategic rationale for the business combination (see paragraphs BC164–BC165). Contribution of the acquired business (paragraph B64(q) of IFRS 3)

The IASB proposes to amend paragraph B64(q) of IFRS 3 to improve the information users receive about the contribution of the acquired business (see paragraphs BC166–BC177). In particular, the IASB proposes:

· to specify that the amount of profit or loss referred to in that paragraph is the amount of operating profit or loss (operating profit or loss will be defined as part of the IASB's Primary Financial Statements project);

· to explain the purpose of the requirement but add no specific application guidance; and

· to specify that the basis for preparing this information is an accounting policy. Classes of assets acquired and liabilities assumed (paragraph B64(i) of IFRS 3)

The IASB proposes to improve the information entities disclose about the pension and financing liabilities assumed in a business combination by deleting the word 'major' from paragraph B64(i) of IFRS 3 and adding pension and financing liabilities to the illustrative example in paragraph IE72 of the Illustrative Examples accompanying IFRS 3 (see paragraphs BC178–BC181).

Deleting disclosure requirements (paragraphs B64(h), B67(d)(iii) and B67(e) of IFRS 3)

The IASB proposes to delete some disclosure requirements from IFRS 3 (see paragraphs BC182– BC183).

Do you agree with the proposals? Why or why not?

ICAC´s Response

Firstly, as already stated in the ICAC's responses to this document, we agree with the IASB's proposed introduction of the new disclosure objectives in paragraph 62A as they provide more information on business combinations and respond to one of the user requirements for business combinations.

Secondly, with respect to the requirement to disclose quantitative information about expected synergies in the year of acquisition, we agree with the IASB that providing quantitative and not only qualitative information provides much more complete and relevant information. On the other hand, by requiring entities to quantify synergies (either in an amount or in a range), it will be provided a very relevant

component of goodwill, which, in principle, will facilitate both the entity and users in the subsequent valuation of goodwill. This was also one of the major problems encountered from the outset in the IFRS 3 PIR.

We also consider it very relevant for the valuation of the business combination to disclose when the benefits from the disclosed synergies are expected to start to be realised and how long they are expected to last.

Regarding the replacement in paragraph B64 (d) of IFRS 3 of the term "primary reasons" by "the strategic rationale" we consider that the proposal does not entail significant changes compared to the current requirements of IFRS 3.

With regard to the point on the contribution of the acquired business we consider the following, we broadly agree with the IASB's proposal, however, we would like to make the following points:

- Regarding the precision of the preparation of the information in paragraph B64(q) (ii) where it is stated that it is an accounting policy of the acquirer for the preparation of the information, we consider that it would be more appropriate for each acquisition to disclose the method used by the acquirer for the preparation of the information. We consider that it is more useful for the user to have the information integrated and for the entity to have greater flexibility when preparing the information.

- With respect to the deletion of the word "principal" from paragraph B64(i), we believe that it is not necessary because, although it may be redundant, its deletion could be confusing for users who may have to report in detail each asset and liability acquired in a business combination.

Questions to Constituents

Do you expect to have difficulties in providing quantitative information on expected synergies in the year of acquisition? If so, please explain why.

N/A

Do you consider the IASB should define “synergies” or provide additional guidance on the types of synergies for which entities are expected to provide quantitative information?

We consider that, as expressed by the IASB, synergy is a term with which the standard is familiar and which in our view does not need to be defined. With regard to the additional guidelines on types of synergies, we understand that obtaining a figure, either an amount or range, to quantify synergies is a

new requirement and where entities will have to apply the mechanisms they deem appropriate to obtain a valuation, so providing guidelines could provide rigidity rather than guidance on the concept, as the difficulty is not so much in understanding the concept, but in materialising it so that it can be disclosed in an understandable and comparable way.

Do you consider that the financial statements to be the right location to provide quantitative information on expected synergies? If not, please explain why and where the information should be provided.

Yes, we believe that the financial statements are the appropriate place. Firstly, because it is the place where any information is required to be disclosed, as the management report can advise, but not oblige, its inclusion. Secondly, because including it in the financial statements makes it auditable with greater assurance than if it is included in the management report, and thirdly, because it is more useful for users to have all the information in one place. Finally, we understand that the risks intended to be covered by disclosing this information in the management report rather than in the financial statements are already covered by allowing entities to be exempted from providing this information in certain cases.

Do you agree with the IASB's proposal to specify that the basis of preparation of the information on the contribution of the acquired business is an accounting policy? Please explain.

We agree with EFRAG that the basis for preparing the information on the contribution of the acquired business should not be an accounting policy, but rather, as EFRAG requires, that the basis for preparing the information should be explained in each case, so that any reader of the accounts has the information in one place, and it also gives the entity preparing the information sufficient flexibility to use the methods it considers appropriate for each business combination.

Have you identified any difficulties with providing/auditing the information in the current requirement in paragraph B64(q) of IFRS 3? If so, please explain and provide alternatives that the IASB should consider.

N/A

Question 6 - Changes to the impairment test (paragraphs 80–81, 83, 85 and 134(a) of IAS 36)
During the PIR of IFRS 3, the IASB heard concerns that the impairment test of cash generating units containing goodwill results in impairment losses sometimes being recognised too late. Two of the reasons the IASB identified (see paragraphs BC188–BC189) for these concerns were: · shielding; and · management over-optimism. The IASB is proposing amendments to IAS 36 that could mitigate these reasons (see paragraphs BC192–BC193). Proposals to reduce shielding The IASB considered developing a different impairment test that would be significantly more effective at a reasonable cost but concluded that doing so would not be feasible (see paragraphs BC190–BC191). Instead, the IASB is proposing changes to the impairment test (see paragraphs 80–81, 83 and 85 of IAS 36) to reduce shielding by clarifying how to allocate goodwill to cash generating units (see paragraphs BC194–BC201). Proposal to reduce management over-optimism The IASB's view is that management over-optimism is, in part, better dealt with by enforcers and auditors than by amending IAS 36. Nonetheless, the IASB is proposing to amend IAS 36 to require an entity to disclose in which reportable segment a cash generating unit or group of cash-generating units containing goodwill is included (see paragraph 134(a) of IAS 36). The IASB expects this information to provide users with better information about the assumptions used in the impairment test and therefore allow users to better assess whether

an entity's assumptions are over-optimistic (see paragraph BC202).

(a) Do you agree with the proposals to reduce shielding? Why or why not?

(b) Do you agree with the proposal to reduce management over-optimism? Why or why not?

ICAC´s Response

During the IFRS 3 PIR, one of the main and most recurring concerns was that goodwill impairment losses are recognised too late and too little. This project has been trying for years to come up with an answer to an impairment test that would be more effective at a reasonable cost, but this was not achieved. The two main problems that become apparent when assessing the impairment of cash generating unit or group of cash-generating units that have goodwill allocated to them are shielding and management's over-optimism.

One of the ways used by management is to shield goodwill by incorporating it in cash generating unit or group of cash-generating units with more internally generated goodwill, not only to avoid having to recognise goodwill impairments, but also sometimes to recognise impairments at the most opportune time for management.

We believe that both shielding and management over-optimism in the subsequent valuation of cash generating unit or group of cash-generating units that have goodwill allocated to them is a difficult problem to solve and the proposed amendments to IAS 36 provide a very limited response to this problem. However, we do not believe that it is up to the regulator or the auditor to provide a solution to this deficiency, as if the standard is ambiguous or too flexible in this respect there is little that regulators or auditors can enforce.

We consider that the more information the entity has to disclose about the allocation of goodwill in the cash generating unit or group of cash-generating units, the more the effect of the shield is reduced, not only at the initial time but also in subsequent reallocations of goodwill to other CGUs.

With respect to the new paragraph 80A, specifically paragraph 80A(b), the IASB, in an attempt to improve the guidance in IAS 36 on the allocation of goodwill to cash generating unit or group of cash-generating units, has introduced this new paragraph 80A into the standard. Paragraph 80A(b) introduces the concept of financial reporting as a means of determining the lowest level within the entity for which

the business associated with the goodwill is monitored and then in the last sentence of that paragraph attempts to explain the concept, but we find the whole of paragraph 80A(b) confusing and it is not clear from the wording given for what purpose it is intended.

Questions to Constituents

Do you agree with EFRAG's preliminary view that the last sentence of proposed paragraph 80A(b) in IAS 36 raises concerns around ambiguity and if so, do you agree with EFRAG's recommendation to delete the last sentence of that paragraph? If you do not agree, please explain why?

The IASB, in an attempt to improve the guidance in IAS 36 on the allocation of goodwill to cash generating unit or group of cash-generating units, has introduced paragraph 80 A into the standard. Paragraph 80A(b) introduces the concept of financial reporting as a way of determining the lowest level within the entity for which the business associated with the goodwill is monitored and then in the last sentence of that paragraph attempts to explain the concept, but we consider that the whole of paragraph 80A(b) is confusing and is not solved by deleting the last sentence of the paragraph alone.

Do you agree with the request for further disclosure requirements when goodwill is being reallocated in subsequent periods? Why, or why not?

We agree that when goodwill is reallocated in subsequent years, additional disclosure requirements should be established in IAS 36, as goodwill shielding was being done by companies with goodwill in their accounts both in the year of acquisition and in subsequent years, to avoid goodwill impairments in a timely and appropriate manner. In this respect, greater disclosure in the accounts of reallocations occurring in CGUs containing goodwill would help users to assess these movements and their consequences.

In the interest of ensuring that goodwill is allocated at the lowest level possible, would you consider important for the IASB to provide guidance where the level of allocation is considered too high, and thus unacceptable, regardless of whether that level represents a business unit that has benefited from the acquisition's synergies?

We consider it very difficult to define what is too high a level of allocation to be considered unacceptable, but it would be interesting to provide guidance on what is considered an unacceptable level of business unit.

Question 7 - Changes to the impairment test: Value in use (paragraphs 33, 44–51, 55, 130(g), 134(d)(v) and A20 of IAS 36)
The IASB is proposing to amend how an entity calculates an asset's value in use. In particular, the IASB proposes: · to remove a constraint on cash flows used to calculate value in use. An entity would no longer be prohibited from including cash flows arising from a future restructuring to which the entity is not yet committed or cash flows arising from improving or enhancing an asset's performance (see paragraphs BC204–BC214). · to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use. Instead, an entity would be required to use internally consistent assumptions for cash flows and discount rates (see paragraphs BC215–BC222). (a) Do you agree with the proposal to remove the constraint on including cash flows arising from a future restructuring to which the entity is not yet committed or from improving or enhancing an asset's performance? Why or why not? (b) Do you agree with the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use? Why or why not?

ICAC´s Response

ICAC agrees with removing the restriction in IAS 36 to allow uncommitted restructurings and improvements or improvements in the performance of an asset to be included in the calculation of value in use, as this is the way in which entities generally calculate value in use for internal management purposes and is therefore more aligned with the data used by management and therefore more useful for users.

However, we believe that additional guidance should be provided on which uncommitted restructurings or improvements to include, i.e., that even if they are not committed, a minimum degree of progress in the management of the restructuring or improvement is required for it to be included, that there is something concrete on which the restructuring or improvement is based. We believe that guidance

should be provided to establish objectivity in the inclusion of improvements that is traceable so that the regulator can enforce compliance and the auditor can verify the assessment.

Regarding the proposal to eliminate the requirement to use pre-tax cash flows and pre-tax discount rates to calculate the value in use we agree as it makes it easier for management to calculate it, and also for users, since after-tax rates are generally used for valuations. We consider that it is important that information is given as to whether the valuation has been performed with the pre-tax or after-tax cash flows and rate.

Questions to Constituents

Do you agree with the EFRAG feedback in paragraph 197 and 202 to the questions raised by the IASB?

We agree that the restriction should be eliminated, but we also consider that guidance should be given on what is and what is not within the limits of the restructuring and improvement of an existing asset. We consider that guidance should be given that to be included in a restructuring or improvement there must be a minimum reviewable objective, such as the initiation of a restructuring or improvement project, the request of quotations to third parties....

Do you agree with the recommendations related to (a) the first sentence in paragraph 44A(a) of the ED, and (b) the need for additional guidance on the boundary of an asset? Why or why not?

We agree with the proposal made by EFRAG to the IASB because from the wording given in Article 44, it seems that all inflows and outflows to maintain a Cash Generating Unit or asset at its maximum potential should be included in the calculation, without requiring in the wording of the article the intention of the entity to make the improvement.

Do you agree with the requested additional disclosures on the extent to which the estimated value in use is influenced by the inclusion of uncommitted future restructurings and asset enhancements, where such an inclusion represent a significant amount of the calculated value in use? Why or why not?

ICAC consider that it is important in this modification to achieve objectivity in making the valuations so that the accounts provide a true and fair view. We do believe that it would be appropriate to report whether there is a transaction of a significant amount that is being included in the value in use and the degree of progress that has been acquired in the restructuring project or improvement of future assets.

Do you see a need for additional guidance in how to treat taxes, including deferred taxes, in the calculation of value in use? If so, what kind of guidance is needed?

Additional guidance would be helpful, for example, to clarify how IAS 12 and IAS 36 interact in the analysis of the recovery of the carrying amount of the items that form part of the CGU, including deferred tax assets.