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27 November 2020
602/636

Dear Mr Hoogervorst

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

The IDW appreciates the opportunity to comment on the IASB's Discussion Paper 2020/1 'Business Combinations – Disclosures, Goodwill and Impairment'.

While we support the IASB's efforts to explore whether companies can, at a reasonable cost, provide investors with more useful information about their acquisitions, we believe that some of the proposals do not meet that objective. Furthermore, we believe that the Discussion Paper is not sufficiently open to the question of abolishing the impairment-only approach in favour of reintroducing goodwill amortisation. The perceived lack of goodwill impairments, even continuing into the period of extreme circumstances of the COVID-19 pandemic, demonstrates the need for an open and honest discussion on this issue. The IDW believes that experiences with the application of both IAS 36 and IFRS 3 over the years prove that the impairment test in IAS 36 does not meet stakeholder expectations. We share the IASB's viewpoint, that the impairment test cannot be made significantly more effective. However, we fundamentally disagree with the IASB's assessment that over-optimism is an issue best addressed by regulators and auditors. We think room for judgement is inherent to the current impairment model – so the potential for over-optimism will be best addressed within an entity's corporate governance system, in particular by those charged with governance. Furthermore, we believe it is counterintuitive to propose the mandatory

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annual impairment test be abandoned in favour of a purely trigger-based approach. It seems reasonable to expect that a highly judgemental trigger concept would lead to more discussion and even fewer impairments being recognised.

In summary, we believe that amortisation of goodwill paired with a trigger-based impairment test is a reasonable approach to address the shortcomings identified with the current model.

While we agree with the disclosure objective in the Discussion Paper, we think certain of the proposals might need some revision. On the one hand, we disagree with the inconsistent level to determine whether disclosure is to be provided, in particular introducing the concept of chief operating decision maker (CODM) from IFRS 8. On the other hand, we doubt that some disclosures meet the cost-benefit constraint and would ask the Board to perform more outreach, in particular on users' needs and costs to preparers.

Further, we would like to comment on the specific proposals as follows:

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 IDW generally agrees that– as part of the Post-implementation Review (PiR) of IFRS 3 – the IASB assess the effectiveness of the standard and shares the Board's overall objective. However, we do not agree with the IASB on certain aspects of the proposals.

In particular, we disagree with the IASB's (narrow-margin) decision to retain the impairment-only model and not to reintroduce amortisation of goodwill. We appreciate that both models have their advantages and disadvantages, which have been subject to much discussion over many years. However, given our experience with the impairment model in practice, as well as our observation that stakeholders often view impairments as being recognised too late (albeit this tendency is inherent in the IAS 36 model), on balance, we believe amortisation would be a more sensible approach to the subsequent accounting for goodwill.

Further, if the IASB were to retain the impairment-only model, we would not support the proposed relief from the annual quantitative impairment test for cash-generating units containing goodwill (we refer to paragraph IN9(e)(i) of the Discussion Paper).

Given that the implementation of the package of new disclosures has the potential to significantly increase preparers' costs, especially in case of companies with numerous acquisitions, we further recommend an analysis be performed to confirm that the usefulness of the proposed new disclosures outweighs additional preparation costs and to identify disclosure requirements that might be removed from IFRS 3. Such an analysis should be based on the feedback received on the Discussion Paper and through outreach activities as well as investors' information needs.

As per paragraph IN3, the overall objective of the project is 'to explore whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make'. In this context, we propose the Board examine how a selected disclosure of the comprehensive insights regularly gained in the purchase price allocation could contribute to achieving this objective (e.g., fair value of the workforce acquired). This would certainly make sense from a cost-benefit perspective, as the information is produced in the purchase price allocation process anyway.

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?*

The IDW welcomes the objective of improving the disclosure requirements on business combinations to help investors better understand the subsequent performance of an acquisition and whether its strategic rationale and objectives are met.

We believe the proposed disclosures based on a management approach are, in principle, suitable for achieving this goal. However, we have some concerns regarding the design and implementation of these requirements.

In particular, we do not agree that the CODM is the appropriate level of management to decide whether information on an acquisition is included in the financial statements or not. Given the typical management structures seen in practice, it is unrealistic to assume that a CODM monitors all acquisitions that are material to the financial statements. Thus, the CODM approach implicitly introduces a materiality level different from that defined in IAS 1. We do not support this approach, if intended, for conceptual reasons, and as it carries the risk that information, which could influence the economic decisions of users, will not be disclosed. In our opinion, this outweighs any concerns regarding the potentially onerous volume of these disclosures since this could potentially be dealt with by aggregation.

Paragraph 2.44 of the Discussion Paper implicitly assumes that companies regularly monitor acquisitions for a minimum period of two full years after the year of acquisition. We propose the Board undertake further research on whether this assumption is actually in line with companies' practices. We believe there is a risk that regulators might see this as a minimum threshold and then focus their attention more on an absence of disclosure by those entities who have achieved a relatively fast integration, resulting in them ceasing their own monitoring before the end of this 2 year period.

Although we acknowledge that companies might be reluctant to disclose the type of information proposed in paragraph 2.45 of the Discussion Paper for reasons of commercial sensitivity, we concur with the view that companies should be able to provide useful information without it being so detailed and precise as to create business risks. However, this will depend to some degree on the final design of the disclosure requirements. In our view, comprehensive implementation guidance and illustrative examples might increase companies' acceptance and thus prevent 'boilerplate' disclosures. Furthermore, even today many companies disclose information on their strategic rationale and the objectives of any major acquisitions to their external stakeholders. Thus, possibly some of the information is made publicly available anyway.

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?

We agree that the inclusion of more specific disclosure objectives than currently required by paragraphs 59 and 61 of IFRS 3 could help companies improve their provision of information so as to be more useful to investors and might also contribute to reducing 'boilerplate' information. If the disclosures proposed in paragraphs 2.45 and 2.91 of the Discussion Paper are implemented in IFRS 3, the disclosure objectives provided in paragraph 2.90 are suitable to support this goal.

However, we note, that the benefits expected from an acquisition are not usually limited to synergies. Hence, synergies alone are not likely to explain the price paid (sometimes not at all), whereas other benefits will be equally if not more relevant. Given that, the specific disclosures on synergies and other benefits should be aligned in terms of their granularity to support the proposed disclosure objective in paragraph 2.90(a) of the Discussion Paper, which aims to give a better understanding as to how the purchase price was determined during the deal process.

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?

We agree that the suggested disclosures on synergies would support the project's objective of providing better information on business combinations. However, from our practical experience, such detailed information as envisaged in paragraph 2.64 of the Discussion Paper will only be ready on hand in the case of significant transactions. Hence, in our view, for cost-benefit reasons companies should not be required to disclose quantitative information on synergies that is not prepared as part of the deal process.

To reduce possible diversity in practice from the outset, we suggest to the IASB clarify the term 'synergies' for purposes of IFRS 3 disclosures, and develop comprehensive illustrative examples of the disclosure requirements in paragraph 2.64(b),(c) and (d), since these are subject to interpretation.

Further, we recommend aligning materiality levels for the disclosures proposed in this Discussion Paper (see also our response to question 2). According to paragraph 2.65, information on synergies should be provided for all acquisitions

with material expected synergies, whereas paragraph 2.45 requires information on the subsequent development for all acquisitions the CODM monitors. Given that, there might be acquisitions for which synergies have to be disclosed although they are not monitored by the CODM, the other disclosures would not apply. This does not seem to be a balanced approach. In line with our views expressed on question 2, we recommend the IASB refer consistently to the definition of materiality in IAS 1, in particular as the concept of materiality is generally well-understood.

Concerning the objective of the synergy disclosures to help investors assess the reasonableness of the price paid, we note that this objective will only be met to a limited extent based on the proposed quantitative disclosures. As price does not equal value, a quantification of expected synergies (if determinable at all) will not reconcile to the price paid. Further, according to paragraph 2.68 of the Discussion Paper, a merely qualitative description of the other factors that make up goodwill might be sufficient. Although we acknowledge that the proposals would improve information overall, we suggest the IASB further analyse the need to require the quantification of synergies, given that this would only partially achieve the objective of explaining the price paid.

Finally, we support the separate disclosure of liabilities arising from financing activities and defined benefit pension liabilities as two major classes of liabilities. This would merely be a specification of the disclosures already required by paragraph B64(i) of IFRS 3 and this information should be at hand from the purchase price allocation anyway.

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?

We agree with the view on retaining the requirement to disclose pro forma information, as this type of information provides useful insights as to the financial implications of an acquisition for the acquiring business.

Since there is considerable diversity in practice regarding the preparation of pro forma information, we support the standard including guidance on how to prepare this information. This will promote its informative value and foster consistency and comparability in practice.

We agree to the replacement of the term 'profit or loss' with an alignment to the definition of operating profit or loss in the Exposure Draft 2019/7 'General Presentation and Disclosures'. However, in this respect we would like to mention that, currently, the proposed term in paragraph 2.77(a) of the Discussion Paper refers only to 'profit'.

In order to prevent diversity in practice, we recommend a principles-based definition of the term 'acquisition-related transaction and integration costs'. Further, for purposes of comparability it might be useful to clarify whether the figure is supposed to include or exclude effects on profit or loss from the purchase price allocation.

In our view, additional disclosures on cash flows from operating activities in the year of acquisition might provide useful information for investors. However, given that in practice it might be challenging to prepare those disclosures, for cost-benefit reasons we recommend confirming investors' information needs and assessing preparers' costs based on the feedback received on the Discussion Paper and through outreach activities.

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?

The IDW agrees with the view, that it is not feasible to implement an impairment test that is significantly more effective without simultaneously undertaking a comprehensive revision of IAS 36, and in particular, the cash-generating unit (CGU) concept embedded in the standard.

Conceptually being a residual, goodwill cannot be measured separately from the business it relates to. Thus, direct testing of acquired goodwill is not possible under the current framework; furthermore the 'shielding effect' of internally-generated goodwill, be it from legacy business or from the acquiree's development in the combined business over time, cannot be entirely eliminated.

In addition, in view of the negative conclusion on the headroom approach explored by the IASB to mitigate the shielding effect without having to give up the CGU concept, we would support a comprehensive review of IAS 36, especially were goodwill amortisation not to be re-introduced.

We also share the conclusion that over-optimism and shielding are the main reasons why impairments might not be recognised on a timely basis. A major

reason for the shielding effect is the way IAS 36 defines the level of testing for goodwill impairment. In most cases, this is the upper threshold of the operating segment as per IFRS 8 since, in many cases, accounting goodwill – as an accounting residual – is not monitored by management at all. In addition, over-optimism might stem from different reasons, such as management bias or window dressing, the incentive function of planning, and, not least, the uncertainties inherent in any planning. While some of these reasons are, in principle, addressable (by strengthening corporate governance over the process including the role of those charged with governance) and some are not, we do not agree with the view expressed that auditors and regulators could best address over-optimism because leeway for (management) judgement is inherent in the existing model. The auditor's responsibility is to gain sufficient appropriate audit evidence concerning the results of the impairment test within the limits resulting from ISA 540 (Revised). ISA 540 (Revised) provides detailed guidance on how to deal with the risk factors inherent in any cash flow projection but does not place the auditor's assessment of a company's future business development above that of management. Both auditors and regulators are generally not in a position to enforce downward adjustments of a business plan beyond technical issues or obvious inconsistencies, as their knowledge of the company and its possible development is inevitably limited compared to that of the company itself.

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?*

The IDW supports reintroducing goodwill amortisation combined with an indicator-based goodwill impairment test. Given the limitations of the existing impairment-only model, the IASB's acknowledgement that the model cannot be significantly improved, as well as the ever increasing value of goodwill in entities' balance sheets and the limited number of goodwill impairments that can be evidenced, we believe that reporting reality over the last 16 years has maybe made the best case for reintroducing amortisation.

Recapping the long-lasting discussion on the pros and cons of goodwill amortisation, we acknowledge that it will hardly be possible to raise new conceptual arguments that will constitute a real game changer. There is not even agreement about whether accounting goodwill is a wasting asset or not – a key assessment necessary for deciding on the appropriate subsequent accounting for goodwill.

However, we find some conceptual merit in the idea that goodwill should be expensed on a systematic basis. Companies acquire businesses to realise future economic benefits. Deal prices thus reflect all relevant factors, that contribute to these future economic benefits, including e.g., workforce expertise and synergies. In this respect, goodwill is no different from an asset such as machinery or equipment – it is a production factor the acquiree company paid for, in order to realise future earnings. This acknowledged, net income would be overstated if goodwill were never expensed, which might well be the case under an impairment-only approach. Further, accounting goodwill is a residual. It is determined from the price negotiated for the business and the equity acquired, both subject to specific IFRS accounting and measurement provisions. Accounting goodwill is thus not identical to the economic value of (core) goodwill, neither on initial recognition nor subsequently. Adding to the subsequent difference is the fact that from the date of acquisition additional goodwill is internally generated. As

goodwill cannot be measured directly on the basis of its nature, internally generated and purchased portions of goodwill cannot be separated.

The current impairment-only approach has proven not to meet users' expectations – which is aptly described in perceptions that goodwill impairments are being recognised 'too little, too late'. At the same time, many stakeholders criticise the impairment test as being complex, highly judgemental, time-consuming and costly.

In recent years, deal prices globally have risen substantially and with them goodwill positions in the balance sheets, with the amount of goodwill sometimes even exceeding total equity. Some argue that the impairment-only approach helps assess management's stewardship. However, there seems to be a widespread presumption that non-amortisation provides negative incentives for management to accept prices that are too high, which is neither in the interest of stakeholders nor in alignment with the stewardship function of accounting. Given both the inherent high degree of judgement in impairment testing and the inherent shielding effect, the impairment-only approach alone is not suited to expensing such overpayments effectively.

Thus, amortisation would take some pressure off goodwill balances, hold management accountable for acquisitions (and prices paid), and, in this respect, reduce the incidence of impairments being recognised 'too little, too late'.

Finally, if goodwill amortisation is re-introduced the useful life of goodwill and its amortisation pattern has to be determined. In the context of this discussion, we would just like to point out that the longer the useful life of goodwill, the less pressure is taken off goodwill balances, and the more important the assessment of indicators that may trigger an additional impairment will be become (again).

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 do not support a requirement to present the amount of total equity excluding goodwill on the balance sheet.

We find it difficult to interpret this figure and do not agree that it should be given any prominence in the financial statements. Furthermore, notwithstanding the arguments in paragraphs 3.107 (why goodwill is different from other assets) and 3.109 (to increase transparency and understanding of a company's financial position) in the Discussion Paper, the benefits of this disclosure remain unclear. On the contrary, the presentation/disclosure of such a number would cast doubt about goodwill meeting the definition of an asset.

Besides, considering current disclosure requirements under IFRS and the proposals in the Exposure Draft 2019/7 'General Presentations and Disclosures', this figure can easily be derived, if of interest for stakeholders.

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?

If the impairment-only approach is retained, we do not support the proposed removal of the annual quantitative impairment test in favor of an indicator-based approach.

As we understand it, cost-benefit considerations are the main reason for this proposal. However, we assess cost reductions as limited at best, for the following reasons:

- Indicator-based testing significantly increases the importance of triggers and their qualitative assessment. A thorough analysis and proper docu-

mentation will be more demanding and time-consuming, for both preparers and auditors. Recent experiences in the US with the step-zero test confirm this tendency.

- Likewise, a qualitative testing will trigger the need for respective tailored disclosures to ensure transparency and provide useful information for investors, thus adding additional costs for the preparer.
- Lastly, the longer the interval between quantitative tests, the more likely it will be a costly and time-consuming exercise to update outdated impairment testing models and peer groups, when an ad hoc need for testing arises.

Not to be disregarded is also the fact that preparers will most likely lose technical valuation expertise. Contributing to this, a lack of quantitative impairment testing history makes it far more difficult to benchmark input factors and results over time, as is needed to assess the overall reasonableness of the test.

Once a quantitative test has been initially implemented, the follow-on costs of applying the established process are not only manageable, but the test itself may give valuable insights to preparers, auditors and users of financial statements, with the latter benefitting in particular from the disclosures currently required by IAS 36, such as key assumptions about growth and discount rates.

In case the Board decides to pursue the proposal of the Discussion Paper, we strongly recommend further research be undertaken on the possibility of effectively designing more robust triggers than currently included in IAS 36. Designing sufficiently robust triggers will be essential if the IASB decides to replace the current annual quantitative impairment testing, with an approach focusing solely on the presence or absence of a trigger.

Finally yet importantly, we are convinced that it would not be advisable to reduce the frequency of goodwill testing in order to meet the severe criticism on the effectiveness of the current provisions for impairment testing raised in the PiR of IFRS 3. Reliance on qualitative trigger testing not only adds a further element of judgement and uncertainty to the impairment process, it might also reinforce concerns that impairments are recognised 'too little, too late'.

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.

Provided the impairment-only model of IAS 36 is retained, we agree to, at least, simplifying the value-in-use calculation as proposed in the Discussion Paper. In our view, the proposed changes are conceptually reasonable and will enhance the robustness of the calculation.

For example, the current restrictions regarding uncommitted restructurings and improvement or enhancements result in the value in use of a CGU being an artificial figure, not realistically reflecting management's intent and expectations as incorporated in the business plan. The exclusion of these effects from the business plan is time-consuming, quite complex, and highly judgemental; at the same time, it would not enhance the decision usefulness of the impairment test.

The IDW does not support requiring more discipline in estimating cash flows from uncommitted restructurings and improvements or enhancements beyond that already included in IAS 36. Cash flows in a value-in-use calculation have to be based on approved budgets that regularly include these types of cash flows. Thus, there is no reason to assume these cash flows might be less reliable. Additionally, IFRS 13 is silent on this matter. It would be inconsistent to set higher standards for these types of cash flows in a value-in-use calculation than for those used in a fair-value-less-costs-of-disposal calculation.

We welcome the option to allow a post-tax calculation. The pre-tax requirement has proven ineffective. It is widely accepted, that in the typical case of impairment testing on a CGU level, a pre-tax calculation is not possible at all, given that a market-based CGU discount rate cannot be determined on a pre-tax basis.

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 support the preliminary view, i.e. not to develop the following proposals mentioned in paragraph 4.56 of the Discussion Paper:

(a) Guidance on difference between inputs in a value-in-use vs. a fair value-less-costs-of-disposal calculation – we agree that the current guidance is sufficient.

(c) Higher testing level for goodwill – this should not be pursued, as it exacerbates the shielding effect.

Concerning the simplification proposed in paragraph 4.56(d), we believe further guidance on identifying cash-generating units and allocating goodwill guidance would certainly be useful, as this is a frequent challenge in practice. However, we recommend the IASB analyse the feasibility of this further, given that a complete revision of the CGU concept is not within the scope of this project.

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?

We agree with the IASB's view not to pursue the inclusion of certain intangible assets in goodwill.

The recognition and measurement of acquired intangible assets follows well-established principles in practice. The informative value thus outweighs the costs incurred in performing a purchase price allocation. Additionally, to subsume intangibles in goodwill would be counterintuitive, given their increasing value contribution to companies nowadays. On the contrary, this development again raises the question of whether, on balance, internally generated intangible assets should not be recognised. This would also increase the comparability of organically growing and acquisition-heavy companies. As this topic is beyond the scope of this project, we recommend following up on this in a separate project.

Our view holds, irrespective of whether goodwill amortisation is reintroduced or not.

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?

The IDW supports the worldwide convergence of reporting standards. Thus, we would welcome an alignment of the provisions for impairment testing. However, our views expressed in this comment letter are independent of the conclusions the FASB might finally reach.

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?

n/a

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

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