ASC

ACCOUNTING STANDARDS COUNCIL
SINGAPORE

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Chairman
International Accounting Standards Board
7 Westferry Circus
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(By online submission)

Dear Hans

RESPONSE TO DISCUSSION PAPER ON BUSINESS COMBINATIONS – DISCLOSURES, GOODWILL AND IMPAIRMENT

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Discussion Paper on *Business Combinations – Disclosures, Goodwill and Impairment* (the DP) issued by the International Accounting Standards Board (the IASB or the Board) in March 2020.

We welcome the IASB's work in response to stakeholders' feedback on the Post-implementation Review (PIR) of IFRS 3 *Business Combinations*, in particular to explore improvements to provide more useful information about an acquisition and its subsequent performance and to address concerns about the subsequent accounting for goodwill.

We are supportive of the IASB's overall objective to explore whether entities can, at a reasonable cost, provide investors with more useful information about their acquisitions. In particular, the IASB's preliminary view to develop the enhanced disclosure requirements is arguably one of the more promising potential solutions to the existing issues surrounding the limited information being provided about an acquisition's subsequent performance, and the subsequent accounting for acquired goodwill and its interactions with the accounting for internally generated goodwill.

Notably, the topic on whether goodwill should be amortised has been a subject of long-drawn-out debate, and it is doubtful whether the IASB would receive substantially more new persuasive evidence that could move the debate forward. It is also doubtful whether the IASB could make the impairment test significantly more effective at recognising impairment losses on goodwill on a timely basis.

We consider neither retaining the existing impairment-only model nor reintroducing the amortisation of goodwill to be a satisfactory response to the various issues surrounding the

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subsequent accounting for goodwill. Instead, the IASB should consider exploring improvements to the accounting for internally generated goodwill and other intangible assets to more closely align with the accounting for acquired goodwill.

Moreover, we would not support an indicator-based approach to impairment testing for cash-generating units (CGUs) containing goodwill, if the IASB retains the impairment-only model for goodwill. That said, we are supportive of simplifying the impairment test that is applicable for all assets within the scope of IAS 36 *Impairment of Assets*, without making it significantly less robust.

Our comments on the specific questions in the DP are 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 objective of the project

We are supportive of the IASB's overall objective to explore whether entities can, at a reasonable cost, provide investors with more useful information about their acquisitions. Better information would help investors to assess the performance of entities that have made acquisitions and more effectively hold management to account for its decisions to acquire those businesses. It is in line with how investors use financial information to form expectations about returns as described in the *Conceptual Framework for Financial Reporting* (the Conceptual Framework).

Subject to our specific comments on the individual IASB's preliminary views, the package of preliminary views has the potential to improve the information provided about an acquisition at a reasonable cost. We agree with the IASB that the accounting for goodwill cannot provide

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information about the success of an acquisition, regardless of whether amortisation is reintroduced or the impairment-only approach is retained. Importantly, developing enhanced disclosure requirements about an acquisition and its subsequent performance through the eyes of management is arguably one of the more promising potential solutions to alleviate the existing concerns about the limited information being provided currently, and the perennial issues surrounding the subsequent accounting for acquired goodwill and its interactions with the accounting for internally generated goodwill.

That said, the enhanced disclosure requirements cannot address the current issues relating to the measurement and derecognition of goodwill. Moreover, we are inclined to support the IASB's preliminary view that it is not feasible to make the impairment test for CGUs containing goodwill significantly more effective at recognising impairment losses on goodwill on a timely basis. It is also doubtful whether the IASB would receive substantially more new persuasive evidence that can sway stakeholders' strong and diverse views to reach a common ground between the impairment-only model and the amortisation model.

Therefore, we do not realistically expect that the IASB's preliminary views would resolve the current issues relating to the subsequent accounting for goodwill.

Links between individual IASB's preliminary views

Our views on an individual IASB's preliminary view may depend on the outcome of one or more of the other preliminary views. For example:

(a) Our view that the impairment-only model does not provide satisfactory solution to the accounting for goodwill partly depends on our view that it is doubtful that the impairment test could be made significantly more effective at the timely recognition of impairment losses on goodwill at a reasonable cost.

(b) Our view is that the IASB should not proceed with indicator-based impairment for CGUs containing goodwill, if it were to retain the impairment-only model for acquired goodwill.

Moreover, the IASB can explore how information that results from an individual preliminary view could be used to improve or complement the information that would be provided by the other preliminary views, or the existing requirements in IFRS Standards. For example:

(a) Aligning the disclosure requirements about whether an acquisition's objectives are being met with the level at which goodwill is allocated for the purpose of impairment testing may provide information that potentially alleviates the shortcomings of the existing impairment test for goodwill.

(b) The disclosure of metrics used to monitor an acquisition's subsequent performance against its objectives may either: (i) be a source of impairment indicators under the indicator-based impairment test for CGUs containing goodwill; or (ii) complement the current disclosures linked to the annual quantitative impairment test for such CGUs.

(c) Leveraging the disclosures about expected synergies, an entity may be required to disclose management's decision and reasons to stop monitoring an acquisition, if it occurs before the end of when the synergies arising from that acquisition are expected to be substantially realised, instead of an arbitrary two-year period after the year of acquisition.

(d) Leveraging the disclosures linked to annual quantitative impairment test, an entity may be required to disclose the unrecognised headroom of the existing CGU at the date the entity made an acquisition, and subsequently in the first few years after that acquisition, to provide potentially useful information to investors to make adjustments to the carrying amount of goodwill to reduce the shielding effect in a way that suits their analysis.

(e) A significant shortfall in the unrecognised headroom of a CGU containing goodwill determined before the end of the year in which the entity made the related acquisition, as compared to the unrecognised headroom of the CGU determined at the acquisition date, may provide an indication that the goodwill includes material over-payments.

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).

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(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?

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?

Disclosure objectives

We are supportive of the IASB's preliminary views to add more specific disclosure objectives in IFRS 3 to provide information about the benefits that management expected from an acquisition when agreeing the price to acquire a business, and the extent to which an acquisition is meeting management's objectives for the acquisition.

The existing disclosure objectives in IFRS 3 are too generic for entities to discern why the IASB considers the specified disclosure requirements in IFRS 3 to be necessary, and whether there are other disclosures that should be considered, to meet those disclosure objectives. The outcome is extensive boilerplate disclosures that provide little useful information about an acquisition and its subsequent performance.

In our view, the more specific disclosure objectives would help management make better judgements in applying the disclosure requirements to determine the required disclosures based on entity-specific facts and circumstances. The use of better judgements would help to address existing concerns about extensive boilerplate disclosures.

Enhanced disclosure requirements

We are supportive of the IASB's preliminary views to develop specific disclosure requirements to provide information that would help investors to assess an acquisition's subsequent performance, and whether the acquisition met its objectives, based on how management monitors and measures such performance.

The existing disclosure requirements in IFRS 3 do not provide information that links an entity's acquisitions to its overall business strategy and management's objectives, and those requirements provide very limited information about an acquisition's subsequent performance.

Our specific comments on individual disclosure requirements are provided in the following sections. While we are generally supportive of the enhanced disclosure requirements, we recognise that applying the requirements can involve significant judgements and subjectivity, which may affect the quality of information provided. In addition, there is a need to balance the information needs of investors with the concerns of entities about disclosing information that has a high risk of significantly eroding their competitive advantage. At appropriate stage(s) of the project, the IASB should consider conducting field tests to obtain evidence of how entities would apply the enhanced disclosure requirements, and whether the information provided would be useful to investors, to ensure that those requirements would provide the intended benefits that justify the related costs.

1. Strategic rationale, management's objectives and metrics

We agree with the IASB's preliminary view to require an entity to disclose the strategic rationale and management's objectives for undertaking an acquisition at the acquisition date,

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instead of the primary reasons for the acquisition as currently required by IFRS 3. We are, in principle, supportive of the IASB's preliminary view to require disclosure of financial and/or non-financial targets set for those objectives and how those targets are to be measured (metrics).

Linking the strategic rationale for the acquisition to the entity's overall business strategy, and in turn management's objectives in terms of more specific financial or non-financial aims to that strategic rationale, would help investors to better understand how the acquisition fits into the overall business strategy.

The metrics at the acquisition date provide a basis on which investors could assess the acquisition's subsequent performance and whether the acquisition met its objectives. Information about how the acquisition has performed against those metrics would help investors to calibrate management's conclusion on whether the CGUs containing the related goodwill is impaired, and if so, the amount of impairment losses recognised, for the purpose of their analysis.

In particular, the information disclosed has the potential to alleviate the shortcomings of the existing impairment test for goodwill. For example, if the acquisition fails to meet the metrics, investors could use the information to make their own adjustments to the carrying amount of goodwill, even if no impairment loss has been recognised because of the shielding effect. Conversely, an acquisition may continue to meet its objectives, notwithstanding that the CGUs containing the goodwill arising from that acquisition have suffered impairment losses.

Should the IASB introduce an indicator-based impairment test for CGUs containing goodwill, an acquisition's under-performance is likely to provide an indication that an impairment of the related goodwill may have occurred. The disclosures may also address concerns about any potential loss of useful information that is currently provided for the annual quantitative impairment test.

2. Information based on how CODM monitors and measures subsequent performance

We agree that the information should be based on how management monitors and measures an acquisition's progress against its objectives, instead of metrics prescribed by the IASB. In particular:

(a) Information used by management for decision making and performance monitoring should be similarly relevant for investors in assessing whether an acquisition met its objectives. Investors can more effectively hold management to account for an acquisition's performance against the objectives and metrics set and monitored by management.

(b) Such information is prepared regularly for management's use, and therefore, entities do not need to generate the information solely for external reporting. This would reduce the cost of providing the information, while potentially improving the quality of the information that is a subject of closer scrutiny.

(c) No single metric or group of metrics could provide adequate information for evaluating all acquisitions, simply because entities acquire businesses to meet various objectives and may incorporate the acquired businesses into their existing businesses in various ways.

If management does not monitor whether an acquisition met its objectives, we agree that the entity should be required to disclose that fact and explain why it does not do so. This information, in itself, would be useful for investors to hold management to account for its decision to allocate resources to make an acquisition but not monitor that acquisition's performance against its objectives. Therefore, management can be expected to exercise more discipline in monitoring its acquisitions, and to defend its decision for not doing so, if the monitoring would have provided material information about those acquisitions. Moreover, we agree that the entity should not be required to disclose specific metrics prescribed by the IASB in such cases, given that no single group of metrics could provide adequate information for evaluating all acquisitions.

However, for this particular purpose, we do not necessarily agree that the CODM is the appropriate level within management because of the following reasons:

(i) Requiring disclosures based on information used by the CODM may not achieve the right balance. In many cases, the monitoring of an acquisition's progress against its objectives may be performed at a level below the CODM, such as the operating decision maker of the business unit that includes the combined business. The CODM does not necessarily monitor a particular acquisition's progress against its objectives, even if the CODM assesses the overall performance of the entity's operating segments that include the acquired business against the operating segments' periodic budgets or forecasts. As a result, investors would not receive material information on acquisitions, if the CODM does not monitor those acquisitions' progress against their objectives.

(ii) Applying the disclosure requirements to acquisitions monitored by the CODM would not align with the level at which goodwill is allocated for the purpose of impairment testing. Specifically, goodwill is allocated to CGUs on the basis of the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not larger than an operating segment before aggregation. Moreover, entities are currently required to provide disclosures about key assumptions, growth rate and discount rate for each CGU containing significant goodwill, regardless of whether impairment loss has been recognised. Therefore, limiting the disclosure requirements to acquisitions monitored by the CODM does not appear to be an adequate response to investors' need for better information about goodwill reported in the financial statements, when the IASB has acknowledged that it is not feasible to make the impairment test significantly more effective at recognising impairment losses on goodwill on a timely basis. Besides, the IASB would have missed an opportunity to leverage the information that disclosures about subsequent performance of acquisitions would provide to complement the disclosures currently provided for the quantitative impairment test of CGUs containing goodwill.

We acknowledge a need to balance the information needs of investors with the cost of entities providing information that is justified by the benefits to investors. A more-balanced approach may be to require disclosures for all acquisitions that meet both of the following conditions:

(1) An acquisition is monitored against its objectives for internal management purposes.

(2) Either the carrying amount of the related goodwill, or the related goodwill is included in CGUs containing goodwill of which the aggregate carrying amount, is significant in comparison with the entity's total carrying amount of goodwill.

This approach is in line with the principles underlying the goodwill allocation and disclosure requirements in IAS 36. Such alignment would provide the benefits as described in (ii) above.

The disclosures required by this approach may appear to be onerous for entities that make many acquisitions. Nevertheless, it is likely that those acquisitions would be integrated into much fewer business units, and management would be monitoring the combined businesses against only the key metrics for each important acquisition included in those combined businesses. Moreover, as more acquisitions are added to a combined business, management is increasingly unlikely to continue monitoring the earlier acquisitions based on outdated metrics determined for the combined business as of their respective acquisition dates. On the whole, we consider that the cost of entities providing the disclosures should be justified by the benefits of such disclosures to investors.

3. Disclosure of non-GAAP and non-financial metrics

In principle, we are supportive of disclosing non-financial metrics and financial metrics based on measures that do not comply with IFRS Standards, if management uses those metrics to monitor and measure an acquisition's progress against its objectives.

Those financial and non-financial metrics may not be key inputs of, or directly linked to, measures complying with IFRS Standards. Examples include non-financial metrics relating to the number of subscribers, quality improvement to existing products, or green and sustainability benchmarking.

For non-financial metrics that are neither key inputs of nor directly linked to financial measures reported in the financial statements, information about whether an acquisition is successful or not may not always be useful in terms of the impact on the entity's financial performance. Moreover, the disclosure of some non-financial metrics may have audit and enforcement implications, for example, it may be more difficult for auditors and regulators to verify those disclosures, and for auditors to use the work of experts for such verification. Depending on the feedback received on the DP, the IASB may have to perform additional work to address concerns about the disclosure of non-financial metrics, which potentially include limiting such disclosures to non-financial metrics that meet specified conditions.

For financial metrics that are not based on measures complying with IFRS Standards, it may be less of a concern if the IASB were to require the disclosure of management performance measures in the financial statements, similar to or modified from the proposals in ED/2019/7 *General Presentation and Disclosures*. Management performance measures communicate

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management's view of an aspect of an entity's financial performance. The IASB may consider requiring an entity to disclose the linkage between a metric and the most closely related management performance measure, which is in turn reconciled to the most directly comparable subtotal or total specified by IFRS Standards.

4. Location of disclosures about strategic rationale, management's objectives and metrics

We have a slight preference for the disclosures being made in the notes to the financial statements, rather than outside the financial statements such as in the management commentary of the annual report.

IFRS Standards currently require disclosures similar to forward-looking information, notwithstanding that those disclosures are generally limited to assumptions used in the measurement or disclosure of current values or impairment-related amounts reported in the financial statements. In addition, in our comment letter to ED/2019/7, we expressed support for disclosure in the financial statements of management performance measures that are financial measures, such as subtotals and ratios based on any of the elements of the financial statements.

That said, we acknowledge the broader scope of the disclosures about strategic rationale, management's objectives and metrics. The disclosures relate to management's expectations and targets for an acquisition that are not direct inputs for the estimation of amounts reported in the financial statements, and may include non-financial metrics that are not ordinarily reported in the financial statements. Nevertheless, management's expectations and targets for an acquisition would provide an important basis against which the acquisition's subsequent performance can be assessed, which would provide useful information that complements the current disclosures linked to the quantitative impairment test. Any independent audit performed on the financial statements would increase investors' confidence in the quality of disclosures provided therein.

On the other hand, the management commentary typically provides information about an entity's strategies, performance and prospects at the entity and business segment level. The information typically includes merger and acquisition activities, but not necessarily specific targets and performance of individual acquisitions. Nevertheless, we acknowledge potential linkages and overlaps between the disclosures set out in the DP and the information currently provided in the management commentary. As a starting point, both financial statements and management commentary should contain relevant information coherently as stand-alone communications. That said, entities may reduce duplication of information by cross-referencing from the management commentary to the relevant disclosures in the financial statements, to the extent that cross referencing does not render the management commentary incoherent.

Moreover, if such disclosures were to be provided in the management commentary, entities effectively have a choice of omitting the disclosures. In particular, this free choice differs from the case of an entity not providing the disclosures because management does not monitor an acquisition's subsequent performance. In such a case, the entity discloses the fact and the reasons why, and this disclosure in itself provides useful information to investors.

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5. End of monitoring and changes to metrics

We are supportive of requiring an entity to disclose information about whether an acquisition is meeting its objectives for as long as management continues to monitor that acquisition. The disclosures would provide useful information to investors that is justified by the cost of providing the information, for reasons similar to those described in section (2) above.

We recognise that the benefits of disclosing an acquisition's subsequent performance will reduce over time as the acquired business becomes more integrated into the entity's existing businesses. For this reason, at some point as integration progresses, management is likely to cease monitoring the acquisition's performance against its acquisition-date objectives, and instead monitor the performance of the combined business against the periodic budgets and forecasts.

On the whole, we are not particularly concerned about a potentially prolonged period of disclosure that would be onerous for entities making many acquisitions.

End of monitoring

We do not consider a specified period of two years to be appropriate for determining whether an entity is required to disclose its decision and reasons to stop monitoring an acquisition. Entities acquire businesses to meet various objectives and may incorporate the acquired businesses into their existing businesses in various ways. Therefore, no single time frame could provide a reasonable monitoring period for all acquisitions that allows management to take into account specific facts and circumstances in determining how long it would monitor an acquisition, and investors to hold management to account for its acquisition decision.

Besides, a two-year period would be a low hurdle to discourage management from working around the requirement to avoid disclosing information even as synergies from the acquisition continue to be realised, simply by changing the basis on which it monitors an acquisition, for example, to measuring the acquisition's performance against the periodic budgets and forecasts.

Following from its preliminary views to require disclosures about expected synergies as described in Question 4, the IASB may explore requiring an entity to disclose management's decision and reasons to stop monitoring an acquisition before the end of when the synergies arising from that acquisition are expected to be substantially realised. By linking this disclosure to the expected synergies, it would provide more useful information that takes into account facts and circumstances specific to that acquisition. Investors can also more effectively hold management to account for its decision to allocate resources to make that acquisition, but not monitor that acquisition's performance against its objectives before the expected synergies are substantially realised.

Changes to metrics

If management changes the metrics it uses to monitor whether the objectives of an acquisition are being met, we agree that the entity should be required to disclose the new metrics and the reasons for the change.

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Logically, we expect limited benefit from a requirement for the entity to continue disclosing metrics that presumably no longer provides useful information to management. The resulting information is unlikely to be useful to investors to evaluate the acquisition's subsequent performance.

That said, we acknowledge the risk of an entity changing the metrics simply to mask a failed or under-performing acquisition. Nevertheless, the requirement to disclose the reasons for the change in metrics may bring the acquisition's subsequent performance under closer scrutiny, and therefore, provide some discipline in the selection and continued use of suitable metrics.

6. Commercial sensitivity

Generally, we do not consider commercial sensitivity to be a particular concern for the enhanced disclosure requirements. If commercial sensitivity had been a significant concern, the IASB would need to strike a reasonable balance between meeting the information needs of investors and making entities disclose information that has a high risk of significantly eroding their competitive advantage.

We are inclined to agree with the IASB's analysis that entities may be able to provide more useful information in a way that limits the disclosure of commercially sensitive information. In determining the detail and precision of information to be disclosed, entities are required to exercise judgement to balance the need to provide sufficient useful information with the risk of information overload to such extent that it obscures material information. As a result, the required disclosures may not need to be as detailed and precise as some preparers had thought.

That said, there may be legal and regulatory prohibitions set by jurisdictions on the disclosure of certain commercially sensitive information. Therefore, the IASB should consider providing an exception to the enhanced disclosure requirements, if particular disclosures would result in an entity contravening existing legal and regulatory requirements.

7. Forward-looking information

We are inclined to support the IASB's preliminary view that the information setting out management's objectives for an acquisition and the metrics used to monitor progress in meeting those objectives is not forward-looking information.

The information reflects more of management's targets for the acquisition at the acquisition date, and less of management's forecast of what the acquisition would achieve at a future date. That said, there may be a fine line between these arguments, particularly because management would have agreed the price to acquire a business with an expectation that the targets for that acquisition would match or exceed the performance of that acquisition in the future.

Importantly, IFRS Standards currently require disclosures similar to forward-looking information, notwithstanding that those disclosures are generally limited to assumptions used in the measurement or disclosure of current values or impairment-related amounts reported in

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the financial statements. For example, disclosures about key assumptions used in estimating cash flow projections in value in use, and the quantitative information about significant unobservable inputs used in Level 3 fair value measurements, are arguably more akin to forward-looking information in comparison with the information set out in the enhanced disclosure requirements.

We have not been informed by our stakeholders that there are laws and regulations that would prohibit an entity from disclosing the information set out in the enhanced disclosure requirements. Nevertheless, our stakeholders' feedback indicates that some of the disclosures may be viewed as a prospect statement under jurisdictions' listing rules and other laws and regulations, and if so, may be a subject of additional conditions and reporting requirements[1]. Those additional requirements may necessitate ongoing monitoring and reporting of significant variances between management's targets and actual performance, which may be onerous. Depending on the feedback received on the DP, the IASB may have to consider the implications of the enhanced disclosure requirements on the cost of compliance with laws and regulations, and consequently, whether the benefits of those disclosure requirements would justify the costs of providing the information.

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:
  o a description of the synergies expected from combining the operations of the acquired business with the company's business;
  o when the synergies are expected to be realised;
  o the estimated amount or range of amounts of the synergies; and
  o 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?

[1] For example, the listing rules of Singapore Exchange specify additional conditions and reporting requirements for a prospect statement, including: (1) The prospect statement should be balanced and fair, for example, by avoiding presentation of projections without sufficient qualification or without sufficient factual basis; and (2) If an issuer has previously provided a prospect statement, the issuer has an obligation to make an immediate announcement when subsequent events indicate firm evidence of significant improvement or deterioration in near-term earnings prospect, and to disclose in the periodic results announcements any variance between the prospect statement and the actual results.

Synergies

In principle, we are supportive of the IASB's preliminary views to require the disclosure of specific information about the expected synergies.

For most acquisitions, we expect that achieving synergies is an important objective of the acquisition, and therefore, a significant component of goodwill recognised on the acquisition. However, entities have often provided generic descriptions of synergies applying the current requirements of IFRS 3. It has resulted in a missing piece of important information necessary for investors to understand the expected benefits from an acquisition and to evaluate whether the entity has paid a reasonable price for the acquisition. Therefore, investors would receive potentially useful information from qualitative and quantitative disclosures about the nature, timing and amount of the expected synergies as of the acquisition date. In this regard, the IASB has identified the relevant information to be disclosed about the expected synergies.

We note that the IASB does not intend to require entities to disclose detailed plans on how they intend to realise the expected synergies. Therefore, we do not consider commercial sensitivity to be a particular concern for the disclosures about expected synergies.

Nevertheless, our stakeholders' feedback indicates that the disclosures about expected synergies are likely to be viewed as a prospect statement under jurisdictions' listing rules and other laws and regulations. Our comments on Question 2 about the costs of ongoing monitoring and reporting in compliance with such laws and regulations similarly apply to these disclosures.

Scope and level of aggregation

We see merit in aligning the scope of disclosures for expected synergies with the current scope of existing quantitative disclosures in IFRS 3, such as the acquisition-date fair value of each major class of consideration and the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed, applying paragraphs B64–B65 of IFRS 3.

If the IASB expects those two sets of disclosure requirements to apply to the same population of acquisitions, an explicit alignment of the scope would improve coherence of the disclosure requirements in IFRS 3 and avoid unintended consequences arising from the use of different descriptions. If not, disclosing either the expected synergies or the quantitative disclosures about the consideration transferred and the assets and liabilities recognised, without the other, may not achieve the intended benefits of helping investors to better understand the expected benefits from a material acquisition, including the remaining factors that make up the goodwill, and to evaluate whether the entity has paid a reasonable price for the acquisition. If the expected synergies are not material, an entity would not be expected to provide the disclosures about expected synergies. The absence of such disclosures in itself, together with the current qualitative description of the factors that make up the goodwill, would provide potentially useful information about the size of the remaining factors of the goodwill.

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For individually immaterial business combinations occurring during a reporting period that are material collectively, the IASB may consider requiring aggregated disclosures about the expected synergies for acquisitions that are made to achieve shared synergies.

Operational and cost implications

We have received stakeholders' feedback expressing concerns about whether the quantitative disclosure requirements are operational, and whether their benefits would justify the costs of providing the disclosures. In particular, there are concerns about the difficulty and significant subjectivity involved in estimating the amount or range of amounts of expected synergies, which could affect the quality of information provided. There is a greater concern as the number of CGUs that are expected to benefit from the synergies increases.

Ideally, management would have made an estimate of expected synergies in agreeing the price for an acquisition. In reality, management uses various approaches and gives different weights to various factors in agreeing the price of the individual acquisitions. In some cases, management would not have made a reliable estimate of expected synergies, both at the acquisition date and thereafter when accounting for the acquisition applying the acquisition method.

Entities may have to estimate the amount(s) of expected synergies solely for disclosure in the financial statements. If the IASB expects that entities are able to reliably estimate the amount(s) of synergies directly, it raises a fundamental question of why the IASB does not require or permit synergies to be separately recognised from goodwill, which should provide useful information to investors.

In addition, clarification about the amount(s) of expected synergies would be necessary to facilitate more consistency application. For example: (i) whether those amounts should be linked to the metrics used to measure an acquisition's targets; and (ii) whether those amounts should be a current value of the expected synergies.

Depending on the feedback received on the DP, the IASB may have to perform additional work to determine whether the benefits of the quantitative information about expected synergies would justify the costs of providing the information.

Major classes of liabilities

We are supportive of the IASB's preliminary view to specify that liabilities arising from financing activities and defined benefit pension liabilities are major classes of liabilities.

Applying this preliminary view, an entity is required to separately disclose the amounts of such liabilities in the quantitative disclosures made for an acquisition. The information would allow investors to calculate the total capital employed, if they view those liabilities as part of the total capital employed in the transaction by the entity. The disclosure of such information is not expected to be onerous because the information should be readily available as those liabilities are recognised and measured at the amounts to be disclosed applying the acquisition method.

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?

In principle, we are supportive of the IASB's preliminary views to:

(a) Retain the existing requirements to provide pro forma information about revenue and profit or loss of the acquired business.

(b) Replace the term 'profit or loss' with the term 'operating profit before acquisition-related transaction and integration costs' in the pro forma information and the actual information since the acquisition date, if the IASB finalises its proposal to present operating profit or loss as a subtotal in the statement of profit or loss and other comprehensive income.

The pro forma information would help investors to assess the potential full-year contribution of the acquired business, and to adjust for the effect of the acquired business in their trend analysis of revenue and profit or loss of the entity for the current and future annual periods. We have not received stakeholders' feedback about significant difficulty or diversity in the preparation of the pro forma information, for example, when pre-acquisition information is not readily available or is affected by material one-off items. That said, the IASB can explore requiring entities to provide additional disclosures to help investors to analyse the pro forma information, such as the basis on which the pro forma information has been prepared, and whether and how the pro forma information is affected by material one-off items.

Generally, operating profit or loss should provide more useful information in comparison with profit or loss. In most cases, operating profit or loss would help investors to analyse the acquired business' operating performance independently of investment returns and finance costs, in line with our comment letter on ED/2019/7. It would also avoid the need to make subjective allocations of finance costs and tax expenses, if the acquired business has been integrated. However, operating profit or loss may not faithfully represent the acquired business's operating performance, if its operations are conducted substantially through associates and joint ventures accounted for applying the equity method. Therefore, the IASB may explore requiring the entity to disclose share of profit or loss from associates and joint ventures in the pro forma information and the actual information since the acquisition date.

Moreover, excluding the effects of acquisition-related costs and integration costs, which would not recur for the same acquisition, from the pro forma information and the actual information since the acquisition date would provide a more suitable base for comparison with operating profit or loss for future annual periods. Nevertheless, the IASB should consider providing further guidance on the term 'integration costs'. Entities may incorporate acquired businesses into their businesses in various ways and may interpret the term 'integration' differently. It is also unclear whether integration costs should comprise only incremental costs of integration, or include an allocation of other directly related or directly attributable costs.

Disclosure of cash flows from operating activities

We acknowledge that investors may use cash flow measures in their analysis. However, it is not obvious that the disclosure of cash flows from operating activities of the acquired business, both in the pro forma information and in the actual information since the acquisition date, would have benefits that justify the costs of providing the information.

In the *Primary Financial Statements* project, the IASB has heard from some stakeholders that the main focus of analysis is the statement of profit or loss and other comprehensive income, and that the statement of cash flows does not always provide useful information. While investors need information that could help them to forecast future cash flows, investors appear to use profit or loss information, rather than information in the statement of cash flows, as a starting point for their analysis, including trend analysis.

Moreover, we have received stakeholders' feedback expressing concerns that the pre-acquisition information on cash flows from operating activities may not be readily available, particularly if the acquired business was not itself a reporting entity. The same is true for the

post-acquisition information, if the acquired business does not become a reporting entity after the acquisition date. This is because, depending on how the financial reporting function is organised, data may be available only in the form of profit or loss information, but not balance sheet and cash flows information, which is used solely for internal management monitoring of business performance.

On the whole, it is not obvious that the benefits of disclosing cash flows from operating activities of the acquired business would justify the cost of doing so. Depending on the stakeholders' feedback received on the DP, the IASB may have to perform further work to determine the relative benefits and costs of providing the disclosures.

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?

Improving effectiveness of impairment test for goodwill at a reasonable cost

Overall, we are inclined to support the IASB's preliminary view that it is not feasible to design an impairment test that is significantly more effective in the timely recognition of impairment losses on goodwill at a reasonable cost.

In our view, the root causes of the non-timely recognition of impairment loss on goodwill are:

(a) Goodwill is a residual and cannot be measured directly; and

(b) Fundamentally different accounting for acquired goodwill and internally generated goodwill.

The goodwill reported in the financial statements is an accounting construct that is a residual representing non-identifiable assets. This means that:

(i) It is impossible to identity all factors that make up the goodwill and to measure the goodwill directly. As a result, the impairment test can only seek to ensure that the assets in the CGU, including goodwill, are not carried at an aggregated amount in excess of the recoverable amount of the CGU.

(ii) The carrying amount of goodwill does not reflect the benefits remaining in the goodwill. Rather, it is an outcome of non-symmetrical allocation of impairment losses and any recovery of impairment losses arising from the CGU containing the goodwill between the goodwill and the individual assets in that CGU.

(iii) Over time, the reported goodwill may well represent new internally generated goodwill that replaces the original acquired goodwill. The entity may also restructure or change the elements in the CGU containing the goodwill such that the factors that make up the original goodwill are no longer relevant. As a result, the carrying amount of goodwill may provide little or no information about the original acquired goodwill.

At the same time, the fundamentally different accounting requirements create a headroom mainly comprising unrecognised internally generated goodwill and other intangible assets that are already present in the entity's existing business at the acquisition date, and those that are subsequently generated by the combined business. As a result, goodwill is shielded against impairment losses because any reduction in the recoverable amount of the CGU containing the goodwill is recognised as an impairment loss on the goodwill only after the headroom is reduced to zero. The shielding effect increases when goodwill is allocated to a higher level – potentially at the level of operating segment before aggregation, for example, if goodwill arising from a particular acquisition is not monitored for internal management purposes.

Therefore, non-timely recognition of impairment losses on goodwill is an inevitable outcome of the aforesaid constraints and drawbacks in the accounting for goodwill. Management over-optimism only aggravates the issue. The application of certain impairment test requirements involves significant subjectivity, such as the allocation of goodwill to CGUs and the determination of terminal value in the value in use estimation. It is an inherent risk that accounting requirements that allow significant subjectivity may encourage opportunistic behaviours and intensify enforcement challenges.

Alternative impairment model – headroom approach

In theory, the headroom approach considered in the DP should improve the effectiveness of impairment testing for goodwill. However, we have reservations about whether the headroom approach could be significantly more effective in the timely recognition of impairment losses on goodwill at a reasonable cost, as elaborated below.

Due to the inherent constraints and drawbacks in the accounting for goodwill, the headroom approach would have limitations because an entity cannot identify the reasons for a reduction

in the recoverable amount of the CGU containing goodwill, and how much of that reduction is attributable to the recognised goodwill and the unrecognised headroom. Indeed, this would be a concern for any impairment model that seeks to allocate a reduction in the recoverable amount between the recognised goodwill and the unrecognised headroom.

Any basis of allocating a reduction in the recoverable amount is likely to be arbitrary. This is because the acquired and internally generated goodwill are not distinguishable from each other, and they do not generate cash flows independently of the identifiable assets included in the CGU. It is not often that the entity can demonstrate that a reduction in the recoverable amount is clearly caused by something unrelated to the acquired business, or something related to the acquired business that was already present at the acquisition date.

Even if the acquired business under-performs, better performance from other elements of the combined business may avoid a reduction in the recoverable amount of the CGU, and therefore, shield the recognised goodwill against impairment losses.

An entity may restructure or change the elements in the CGU containing the goodwill over time. At some point, it may become almost impossible to allocate a reduction in the recoverable amount between the goodwill recognised from various acquisitions, and the unrecognised headroom comprising mainly goodwill and other intangible assets that are internally generated from various businesses subsequent to each of those acquisitions, in addition to those that existed at the respective acquisition dates of those acquisitions.

On the whole, we do not consider the headroom approach to be significantly more effective in the timely recognition of impairment losses on goodwill at a reasonable cost.

Additional disclosures about unrecognised headroom

To alleviate concerns about the shielding effect, the IASB can explore requiring an entity to disclose the unrecognised headroom of the CGU to which goodwill arising from an acquisition would be allocated, as determined at the acquisition date and subsequently for the first few years after the acquisition, if management provides disclosures about whether that acquisition's objectives are being met.

The unrecognised headroom at the acquisition date mainly comprises unrecognised internally generated goodwill and other intangible assets that are already present in the existing CGU. In addition, the disclosures identify any decline in the unrecognised headroom of the CGU after the acquisition. This information would complement the enhanced disclosures about the acquisition and its subsequent performance, particularly in the first few years after the acquisition before the combined business generates material new internally generated goodwill and other intangible assets. In the event an acquisition under-performs during this period, information about the unrecognised headroom would help investors to make adjustments to the carrying amount of goodwill to reduce the shielding effect in a way that suits their analysis.

Besides, the unrecognised headroom may provide a starting point for developing potential solutions to address the issue of over-payments that are included in the goodwill recognised. Over-payments do not represent any benefits that the entity can realise in the future, but the

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current accounting for goodwill cannot adequately address over-payments included in the carrying amount of goodwill. A significant shortfall in the unrecognised headroom of the CGU determined before the end of the year in which the business was acquired, as compared to the unrecognised headroom determined at the acquisition date, may provide an indication that the goodwill includes material over-payments.

Information about that unrecognised headroom should provide benefits that justify the costs of providing the information. In particular, it would not be unduly costly or burdensome to determine the unrecognised headroom at the acquisition date because entities could leverage information from/for the quantitative impairment tests that are performed either:

(a) Annually applying the existing requirements of IAS 36 (e.g. if the IASB retains the annual quantitative impairment test and the existing CGU contains goodwill): The entity could use the most recent detailed calculation of the recoverable amount made in the preceding period for the purpose of the disclosure, if the entity meets the specified conditions in IAS 36; or

(b) In the first year after an acquisition (e.g. if the IASB retains the annual quantitative impairment test and the existing CGU does not contain goodwill): The entity could perform a detailed calculation for the purpose of the disclosure, and use that calculation as a starting point for estimating the cash flow projections for a part of the enlarged CGU in the quantitative impairment test that would be performed in the following period.

Other aspects of IAS 36

The IASB could explore possible improvements to the existing requirements in IAS 36 to address the following concern:

Allocation, reallocation and derecognition of goodwill

Our stakeholders' feedback indicates that the allocation and reallocation of goodwill to CGUs involve significant subjectivity and are prone to opportunistic behaviours. In addition, applying the relative value approach to reallocation and derecognition of goodwill may encourage opportunistic behaviours and result in goodwill remaining in CGUs that is no longer expected to be realised.

For example:

(a) Some entities may seek to avoid impairment losses on goodwill due to the shielding effect from other elements of the CGU by: (i) allocating goodwill at a level higher than that possible for internal management purposes, or to a CGU that is significantly larger than the acquired business; and (ii) reorganising the operational reporting function and the internal monitoring of goodwill to subsume particular under-performing businesses within the more profitable CGUs, or to reallocate a portion of goodwill that originated from an under-performing business to other CGUs.

(b) If an entity disposes of an operation within a larger CGU, a substantial amount of the goodwill would remain in the CGU, unless the goodwill is clearly associated with that operation. However, the entity may no longer expect to realise part of the remaining goodwill, which is not derecognised only because the goodwill cannot be attributed on a non-arbitrary basis between the operation disposed of and the portion of the CGU retained.

In some cases, goodwill from the acquired business that makes up the operation disposed of in a CGU has been allocated to other CGUs that do not contain any assets or liabilities from the business. IAS 36 does not have specific guidance on the accounting for those portions of the goodwill when the entity disposes of the business. As a result, those portions of the goodwill may remain in those other CGUs, even if the entity does not expect to realise further benefits from those portions of the goodwill after the business has been disposed of.

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?

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We consider neither retaining the existing impairment-only model nor reintroducing the amortisation of goodwill to be a satisfactory response to the various issues surrounding the subsequent accounting for goodwill.

The topic on whether goodwill should be amortised has been a subject of long-drawn-out debate. The debate reflects strong polarised views that show no sign of converging over time as experiences develop. Those views are supported by arguments that have been well known for years, and we have reservations about whether the IASB would receive substantially more new persuasive evidence that could move the debate forward.

We acknowledge the arguments in the DP supporting either the impairment-only model or the amortisation model. It appears that for every argument supporting one model, there is a counter argument supporting the other model.

Owing to the residual nature of goodwill, both models have conceptual and practical challenges, and neither of them produce adequate useful information about the benefits embodied in the goodwill reported in the financial statements. Notably, investors have made adjustments for goodwill and the related impairment losses and amortisation expenses for the purpose of their analysis. Moreover, the confirmatory value of impairment loss appears to be limited, in that investors consider the fact that an impairment loss has been recognised to be more useful information than the amount of the loss.

Furthermore, we consider that:

<u>(a) Goodwill is often a wasting asset</u>

For most acquisitions, goodwill is mainly made up of synergies, the going concern value, intangible assets that do not qualify for separate recognition, and potentially over-payments.

With the exception of over-payments, most of those factors are either realised through the consumption of benefits embodied in the assets, or replaced by unrecognised internally generated goodwill and other intangible assets. This would be the case, even if the entity cannot distinguish the acquired goodwill from goodwill that is internally generated subsequently on a non-arbitrary basis. As integration progresses and businesses are reorganised over time, at some point, goodwill may no longer reflect those factors that were present when the entity made the acquisition.

However, the impairment-only model does not distinguish the consumption of benefits from other losses. Moreover, it does not target the goodwill directly, and captures only the excess of the carrying amount over the recoverable amount of the CGU containing the goodwill.

On the other hand, the amortisation model involves the use of significant subjectivity, or even an arbitrary basis, in determining the amortisation period and the consumption pattern for goodwill, which is made up of various factors of different characteristics.

(b) Accounting for internally generated goodwill is a major concern

Many of the existing issues surrounding the subsequent accounting for goodwill stem from the fundamentally different accounting between acquired goodwill and internally generated goodwill. For example, shielding of goodwill against impairment losses by unrecognised headroom, implicit recognition of internally generated goodwill that replaces the acquired goodwill that has been consumed, and reduced comparability between entities that have grown by acquisitions and entities that have grown organically.

Moreover, internally generated goodwill, and other intangible assets that cannot be easily separated from the overall business, are increasingly important in modern economies. However, financial statements do not reflect those assets, and the IASB's attempt to address them through management commentary does not seem to be an adequate response.

Therefore, the IASB should consider exploring improvements to the accounting for internally generated goodwill and other intangible assets to more closely align with the accounting for acquired goodwill.

In particular, an alignment of accounting between acquired goodwill and internally generated goodwill would largely remove the shielding effect of unrecognised headroom, and therefore, reduce the pressure to improve the current impairment test for goodwill. As a result, it may reduce management's incentive for opportunistic behaviours with the objective of avoiding impairment losses on goodwill. That said, we acknowledge that the shielding effect cannot be fully eliminated because the assets in the CGU – including the acquired and internally generated goodwill – cannot generate cash flows independently of one another.

Moreover, the alignment would result in the entity effectively recognising the consumption of benefits in both acquired and internally generated goodwill through the impairment process. While the accounting cannot distinguish consumption of benefits from other losses, it may be a better approach in comparison with an arbitrary basis for amortisation of goodwill. As a result, the carrying amount of acquired and internally generated goodwill collectively would more closely reflect the remaining benefits that can be realised, even if the acquired goodwill cannot be measured directly and distinguished from internally generated goodwill.

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 not supportive of the IASB's preliminary view to require the presentation of the amount of total equity excluding goodwill as a free-standing item on the balance sheet.

There is no conceptual basis for deducting the carrying amount of goodwill from total equity, even if the information is simply presented as a free-standing item. Goodwill is an asset, and the total carrying amount of goodwill and other assets in the CGUs containing the goodwill has been determined to be recoverable. Doing so implies that goodwill is a separate element of the financial statements that is different from assets. This is not supported by the concepts in the Conceptual Framework, and we do not see any compelling reason for departure from the Conceptual Framework.

Moreover, the IASB has proposed in ED/2019/7 to require entities to separately present goodwill from other assets on the balance sheet, which would already give goodwill more prominence. Besides, investors can use the information to make the necessary adjustments for their analysis.

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?

CGUs containing goodwill

We have reservations about removing the annual quantitative impairment test, if the IASB retains the impairment-only model for goodwill.

The IASB had considered a rigorous and operational impairment test to be a necessary condition for the impairment-only model, and the annual quantitative impairment test to be an important part of making the test sufficiently rigorous and operational. Those views remain valid.

In fact, stakeholders have informed the IASB that the annual quantitative impairment test has not been as effective at timely recognition of impairment losses on goodwill as the IASB had intended.

In particular, we do not believe that the indicator-based impairment test can always result in impairment losses on goodwill being recognised at about the same time as would applying the annual quantitative impairment test. This may be the case, for example, if the events that lead to the recognition of impairment losses occur gradually over time.

Replacing the annual quantitative impairment test with an indicator-based approach would delay further the recognition of impairment losses on goodwill, which appears to be a counter-intuitive response to the stakeholders' feedback.

Moreover, investors would no longer receive useful information provided by the disclosure requirements in IAS 36 relating to the annual quantitative impairment test for CGUs containing significant goodwill.

In particular, information about the key assumptions, growth rate and discount rate used in the impairment test is currently provided regardless of whether an impairment loss has been recognised. The information may be particularly useful for investors to work around the limitations of the impairment test for goodwill.

Cost savings

We believe that the extent of cost savings from removing the annual quantitative impairment test would differ depending on the facts and circumstances.

For example, there may be prima facie significant cost savings for goodwill that is allocated to a group of CGUs, when the entity performs impairment test using a bottom-up approach and has no reason to suspect that any of the individual CGUs may be impaired. However, in such cases, updating the inputs used in an existing valuation model may not be as onerous because the entity may be able to rely on less precise inputs to conclude that the carrying amount does not exceed the recoverable amount of that group of CGUs. Besides, the entity would still have to gather some of those inputs when assessing whether there may be an indication of impairment.

Updating list of impairment indicators

Should the IASB remove the annual quantitative impairment test, there may be a need to update the list of impairment indicators in IAS 36 to help entities to more effectively identify an indication that a CGU containing goodwill may be impaired.

In particular, the existing impairment indicators generally relate to the performance of assets that can be valued or disposed on its own, or to the profitability or external environment of a CGU or an entity. However, goodwill may be impaired even if the related CGU is profitable, for example, when the growth and synergies of the combined business fall below expectations as determined at the acquisition date.

Therefore, the list of impairment indicators may be more useful, if it includes indicators that are more directly targeted at goodwill, including goodwill that has been allocated to CGUs that do not contain other assets and liabilities of the related acquisition. For example, the indicators may be linked to the enhanced disclosure requirements about whether an

acquisition's objectives are being met, or the reorganisation of CGUs containing goodwill to address an increased risk that the entity would not realise benefits from the goodwill remaining in the reorganised CGUs.

Intangible assets with indefinite useful lives or not yet available for use

We do not necessarily believe that there is a need to align the impairment model for intangible assets with indefinite useful life and intangible assets not yet available for use with the impairment model for goodwill.

Unlike goodwill, intangible asset with an indefinite useful life and intangible asset not yet available for use are identifiable assets, i.e. they are separable, or arise from contractual or other legal rights. Those intangible assets are more capable of generating largely independent cash inflows or are allocated to a smaller group of CGUs, and therefore, there may be less shielding effect. Moreover, before an intangible asset is available for use, its ability to generate sufficient benefits to recover its carrying amount is usually subject to greater uncertainty. Therefore, applying the annual quantitative impairment test to these intangible assets may provide more benefits that potentially justify the related costs.

That said, should the IASB remove the annual quantitative impairment test only for CGUs containing goodwill for relative cost-benefit reasons, we acknowledge that it would be counter-intuitive to require an entity to apply the quantitative impairment test more often to an identifiable intangible asset than goodwill, which is a non-identifiable asset. Even then, we are inclined to support retaining the impairment test requirement for identifiable intangible assets because we do not consider the current accounting to be broken.

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.

We are supportive of the IASB's preliminary view to remove the following restrictions in the value in use estimation for all assets and CGUs within the scope of IAS 36:

(a) Exclusion of cash flows arising from a future uncommitted restructuring, or from improving or enhancing the asset's performance.

(b) Prohibition on the use of post-tax cash flows and post-tax discount rates.

The removal of those restrictions would reduce the cost and complexity of estimating value in use. In particular, management budgets or forecasts may include cash flows arising from future uncommitted restructuring, improvement or enhancement, while the common valuation practices use post-tax cash flows and discount rates. Therefore, entities would be better able to use inputs directly from management budgets or forecasts and their current valuation models, without making adjustments solely for the purpose of external reporting.

Moreover, it would make the impairment test easier to understand. Fair value reflects the potential of an asset or a CGU to be restructured, improved or enhanced, if market participants would pay for that potential. Therefore, it would be more logical, if the recoverable amount is the higher of fair value and value in use measures that both reflect such potential.

That said, we recognise that significant subjectivity may be involved in determining whether a future uncommitted restructuring, or an improvement or enhancement of an asset's performance, reflects reasonable and supportable assumptions applying the existing requirements of IAS 36. To alleviate concerns about significant subjectivity, the IASB may consider imposing certain conditions, for example, by limiting cash flows from future restructuring, improvement or enhancement to those approved by management, and expanding the scope of the existing sensitivity disclosure requirements to require such disclosures if the exclusion of those cash flows would cause the carrying amount to exceed the recoverable amount.

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 are supportive of the IASB's preliminary views as described in paragraph 4.56 (a)–(c) of the DP.

As stated in our comments on Question 6, the IASB could explore possible improvements to the impairment test in the areas of allocation, reallocation and derecognition of goodwill.

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 are supportive of the IASB's preliminary views on not changing the recognition criteria for identifiable intangible assets acquired in a business combination, if the IASB retains the impairment-only model for the accounting for goodwill.

We are concerned that including some identifiable intangible assets in goodwill would run counter to investors' need for more information about intangible assets that are increasingly important for modern economies, such as brands and customer relationships.

We acknowledge the significant measurement uncertainty of the fair value measures for some identifiable intangible assets, in particular those that cannot be easily separated from the overall business. However, including those assets in goodwill may result in a significant loss of useful information because of the following reasons:

(a) The carrying amount of goodwill would be a residual measure that is made up of both non-identifiable assets and various identifiable assets of different characteristics.

(b) Unlike goodwill, identifiable intangible assets are more capable of generating largely independent cash inflows, or are allocated to a smaller group of CGUs. However, those assets would be allocated to a higher level in cases when the entity can only allocate goodwill to a higher group of CGUs, which may delay the recognition of impairment losses on those assets because of the shielding effect.

(c) Intangible assets with definite useful life would not be amortised. Therefore, such assets may continue to be recognised in the financial statements, even when there are no benefits remaining in the asset because of the shielding effect.

Besides, we do not see a valid concern about double counting of expenses arising from identifiable intangible assets acquired in a business combination – recognition of the acquisition cost as amortisation expense in the same period as subsequent costs incurred in

maintaining those assets. An entity that grows organically also recognises the development cost as an expense, but does so as it is developing the assets. If the entity discloses the amortisation expense, investors can make the necessary adjustments to the periodic profit or loss in their analysis to compare between businesses that grow by acquisitions and those that grow organically.

On the whole, there may be a better cost-benefit balance, if those assets are accounted for separately from goodwill, with accompanying disclosures about the measurement uncertainty. It would help investors to better understand what assets the entity purchased, more effectively assess the entity's prospects for future cash flows, and if necessary make adjustments for the measurement uncertainty in their analysis.

Reintroducing amortisation of goodwill

Our view would not change, even if the IASB were to reintroduce amortisation of goodwill.

We have the same concerns when goodwill is accounted for applying the amortisation model, except that intangible assets with definite useful life would be amortised. At the same time, goodwill may include intangible assets with indefinite life, which would be amortised together with goodwill.

Commingling those intangible assets with goodwill would make it even more difficult to determine an appropriate useful life for goodwill. No single useful life could provide adequate information about the useful lives of those intangible assets included in goodwill.

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?

Our comments do not depend on whether the outcome is consistent with US GAAP as it may be after the FASB's current work on this topic (or as it exists today, if the FASB's current work does not result in amendments to existing standards).

Nevertheless, if the IASB and the FASB do reach converged decisions, it will improve comparability of financial statements that comply with either IFRS Standards or US GAAP, and potentially address concerns that the different accounting for goodwill could be perceived to affect the level playing field in acquisitions.

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 do not have other comments on the IASB's preliminary views.

Other topics in response to PIR of IFRS 3

We have not identified any other topics that the IASB should consider as part of this project. We will provide comments on other topics that the IASB should consider, but are outside the scope of this project, during the 2020 Agenda Consultation.

We hope that our comments will contribute to the IASB's deliberation on the DP. Should you require any further clarification, please contact our project managers Siok Mun Leong at Leong_Siok_Mun@asc.gov.sg or Yat Hwa Guan at Guan_Yat_Hwa@asc.gov.sg.

Yours faithfully

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