MASB MALAYSIAN ACCOUNTING STANDARDS BOARD
LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA

31 December 2020

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Mr. Hoogervorst,

Discussion Paper DP/2020/1 *Business Combinations—Disclosures, Goodwill and Impairment*

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the IASB Discussion Paper DP/2020/1 *Business Combinations—Disclosures, Goodwill and Impairment*.

We have considered the proposals in the Discussion Paper and note that they may, to some extent, assist to address investors' need for better information on the subsequent performance of an acquisition. However, we disagree with the current impairment-only approach with respect to goodwill and instead advocate the following hybrid approach based on the nature of the intangible assets:

(i) for intangible assets with finite useful life (including goodwill), to apply a hybrid of annual amortisation and indicator approach for impairment testing; and

(ii) for intangible assets with indefinite useful life, to continue to require an annual quantitative impairment test.

We are of the view that the estimation of useful life of goodwill and its amortisation pattern should be subject to management's judgement, and that the reintroduction of goodwill amortisation would result in financial statements which are more faithfully representative of the business in the longer run.

Our responses to the respective questions are detailed in the **Appendix** to this letter.

If you need further clarification or have any queries regarding this letter, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,

TAN BEE LENG
Executive Director

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Question 1

Paragraphs 1.7 summarises the objective of the IASB's research project. Paragraph IN9 summarises the IASB'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 IASB 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 IASB is of the view that the benefits of providing that information would exceed the costs of providing it.

(a) Do you agree with the IASB'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 IASB reintroduces amortisation of goodwill? Which of your answers depend on other answers and why?

Response

We are supportive of the IASB's preliminary view that it should develop proposals to enhance the disclosure objectives and requirements in IFRS 3 to improve the information provided to investors about an acquisition and its subsequent performance, subject to careful consideration of our concerns as set out in the responses to the respective Questions.

However, we disagree with the IASB's conclusion in relation to goodwill and propose:

(i) to reintroduce amortisation of goodwill and perform quantitative impairment test when there is an indication of impairment, as a hybrid solution to address practical issues relating to goodwill; and

(ii) that the indicator approach for impairment test is preferable to the proposed requirement to perform an annual quantitative impairment test as this could reduce the cost of performing impairment test, provided that the amortisation of goodwill is reintroduced.

Further details on the above are set out in our responses to Questions 6, 7 and 9 which are inter-linked.

Question 2

Paragraphs 2.4–2.44 discuss the IASB's preliminary view that it should add new disclosure requirements about the subsequent performance of an acquisition.

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(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 IASB.

(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 IASB 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 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?

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(e) Paragraphs 2.29–2.32 explains the IASB'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 IASB considers the information would reflect management's (CODM's) targets at the time of the acquisition. Are there any constraints in your jurisdiction that could affect a company's ability to disclose this information? What are those constraints and what effect could they have?

Response

(a) – (c):
We are of the view that the proposed new disclosure requirements may, to some extent, assist to address investors' need for better information on the subsequent performance of an acquisition. However, we wish to highlight the following concerns:

(i) *Purpose of the proposed disclosures*

We note the objective of the Goodwill and Impairment research project, as set out in paragraphs 1.6–1.7 of the Discussion Paper, which focuses on exploring whether companies can, at a reasonable cost, provide investors with more useful information about the acquisitions those companies make.

While this objective may be achieved through the introduction of the proposed disclosures, we are of the view that the proposed disclosures may be too narrow and inadequate for the purpose of assessing and measuring impairment. As such, users of the financial statements may be unable to arrive at a conclusion as to whether a particular acquisition was successful.

(ii) *Interpretation and application of the Chief Operating Decision Maker (CODM)*

Following the IASB's Post-implementation Review of IFRS 8 *Operating Segments* in 2012, the IASB had identified the concept of an identifiable CODM as an area needing improvement. In March 2017, the IASB issued Exposure Draft ED/2017/2 *Improvements to IFRS 8 Operating Segments* which proposed amendments to address, among others, concerns relating to the application of CODM. However, this project was subsequently discontinued by IASB In February 2019.

Taking the above into consideration, we note that the concerns raised in our 16 November 2012 response to the IASB Request for Information *Post-implementation Review: IFRS 8 Operating Segments* remain valid. In particular, our constituents had expressed difficulties in identifying the CODM.

Given that this Discussion Paper similarly applies the concept of CODM, we reiterate our recommendations for the IASB to further clarify the definition of CODM to avoid unnecessary confusion and inconsistent application, as well as to require the disclosure of the identity of the CODM in the financial statements.

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(iii) *Relationship between strategic rationale and objective with subsequent impairment tests*

The strategic rationale and objective identified at the time of an acquisition may not necessarily have a linear relationship with the results of the subsequent impairment tests carried out. Hence, while we appreciate that the disclosure proposals need to be principle-based in nature, they may lead to greater diversity in practice, in particular in relation to the level of detail disclosed.

<u>(d) – (e):</u>
We agree that commercial sensitivity is not a valid justification for non-disclosure of information about management's (CODM's) objectives for an acquisition and the metrics used to monitor whether those objectives are being met. In addition, we believe that the proposed disclosures would be useful to investors as they would facilitate investors' understanding as well as strengthen the basis for the pricing and determination of goodwill.

However, we are of the view that:

(i) more clarity is needed on the extent of disclosures to be made.

While we support the development of proposed disclosure requirements applying the principle-based approach, we caution that these may also inadvertently encourage the use of generic (boilerplate) disclosures which may be of limited or no value to investors.

(ii) the example of a qualitative statement being information disclosed which does not constitute forward-looking information, as provided in paragraph 2.31 of the Discussion Paper, is too generic.

We propose instead for the IASB to provide specific examples to guide and assist preparers in differentiating disclosures on targets from forward-looking information as these two categories are not significantly different.

(iii) the disclosure of information setting out management's (CODM's) objectives for the acquisition and the metrics used to monitor progress in meeting those objectives at the time of the acquisition in the financial statements would provide minimal strategic advantage and hence would be less likely to be commercially sensitive.

Having considered the above, we recommend that the IASB carefully considers whether the proposed disclosures would be most appropriately placed within the financial statements or outside of the financial statements.

In the event that the IASB maintains its preliminary view that such proposed disclosures should be part of the financial statements despite the concerns expressed by some stakeholders that these could risk litigation as elaborated in paragraph 2.29 of the Discussion Paper, we suggest that more clarity and explanation be provided, including sufficient guidance on areas of quantitative and qualitative disclosures, quantification approach and extent of disclosures.

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We would also like to share that in Malaysia, shareholders and analysts alike would have had access to information about an acquisition prior to it being carried out. In particular, it is common for Malaysian public listed companies to conduct briefing sessions for selected shareholders and analysts where such information would be shared ahead of the acquisition.

Specifically, relevant local jurisdictional requirements include:

(i) section 223(2) of the *Companies Act 2016*, which requires approval to be procured from a company's shareholders before proceeding with the acquisition of an undertaking or property of a substantial value. Where the company intending to carry out the acquisition is an unlisted subsidiary of a listed holding company, approval must also be procured from the listed holding company's shareholders.

(ii) paragraph 9.08(2) of the Bursa Malaysia Main Market Listing Requirements[1], which states that a listed issuer must ensure that no disclosure of material information is made on an individual or selective basis to analysts, shareholders, journalists or other persons unless such information has previously been fully disclosed and disseminated to the public. If material information is inadvertently disclosed at any meetings with analysts, shareholders, journalists or others, it must be publicly disseminated as promptly as possible.

(iii) chapter 10 of the Bursa Malaysia Main Market Listing Requirements, which sets out the requirement for a listed issuer to include additional specific information in relation to very substantial transactions in its announcement of the transaction to Bursa Malaysia and the circular issued to its shareholders. Such information includes, among others, the financial effects before and after the completion of the transaction (e.g. acquisition).

The above disclosures would be subject to paragraph 9.12(1) of the Bursa Malaysia Main Market Listing Requirements which requires a listed issuer to refrain from any form of promotional disclosure activity which may mislead investors or cause unwarranted price movement and activity in a listed issuer's securities.

Question 3

Paragraphs 2.53–2.60 explain the IASB'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

[1] Public listed companies in Malaysia have a choice of three markets for listing – Main Market, ACE Market and LEAP Market – and are required to comply with the respective sets of listing requirements. For the purpose of this response, we have made reference to the Bursa Malaysia Main Market Listing Requirements. Further information on these is available at https://www.bursamalaysia.com.

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- The extent to which an acquisition is meeting management's (CODM's) objectives for the acquisition.

Do you agree with the IASB's preliminary view? Why or why not?

Response

Subject to the concerns highlighted in our response to Question 2 in relation to the concept of CODM, we agree with the IASB's preliminary view that it should develop, in addition to proposed new disclosure requirements, proposals to add disclosure objectives.

Paragraph 2.58 of the Discussion Paper has indicated that these disclosures are intended to allow investors to assess performance and more effectively hold management to account for its decision to acquire the business, including whether management has paid a reasonable price for the acquired business.

However, we are mindful that situations could arise where the acquired business itself is not performing well, but the acquisition has contributed towards the rest of the group's business, e.g. where the acquisition of a loss-making competitor results in an increase in market share. Such situations may not have been in line with the original objectives of the acquisition, and could be challenging to quantify.

Question 4

Paragraphs 2.62–2.68 and paragraphs 2.69–2.71 explain the IASB'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 IASB's preliminary view? Why or why not?

Response

We generally agree with the IASB's preliminary view set out in paragraphs 2.62–2.71 of the Discussion Paper, subject to careful consideration of the following:

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(i) whether the IASB could provide more clarity in relation to disclosure on synergies, as opposed to forward-looking information.

Paragraph 2.67 of the Discussion Paper acknowledges that information on expected synergies could also be considered to be forward-looking in some jurisdictions. This appears to contradict paragraphs 2.29–2.32 of the Discussion Paper whereby the IASB considers that information reflecting management's targets at the time of acquisition would not be forward-looking information.

(ii) how synergies could be reliably quantified for disclosure, particularly in view that many acquisitions do not achieve the synergies expected, often due to human factors, etc.

(iii) potential litigative and/or regulatory implications on the company and its auditors should the company fail to meet the targets/synergies specified at the time of the acquisition, notwithstanding that other 'updated' targets/synergies had been identified.

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 IASB's preliminary view that it should retain the requirement for companies to prepare this pro forma information.

(a) Do you agree with the IASB's preliminary view? Why or why not?

(b) Should the IASB develop guidance for companies on how to prepare the pro forma information? Why or why not? If not, should the IASB 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 IASB'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.

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(c) Do you agree with the IASB's preliminary view? Why or why not?

Response

(a) – (b):
We agree with the IASB's preliminary view to retain the requirement for companies to prepare, 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.

In addition, we are of the view that the following examples of disclosures as set out in paragraph 2.83 of the Discussion Paper, while not sufficient on their own to help investors assess the potential full-year contribution of the acquired business, may be helpful to supplement disclosures insofar as they provide relevant and useful information to investors:

(i) information about how seasonality affects the financial performance and cash flows of the acquired business;

(ii) the unadjusted revenue, operating profit and cash flows from operating activities from the most recent annual financial statements of the acquired business; or

(iii) the amounts of the material one-off items.

The above is in line with Malaysian local jurisdictional requirements whereby the public listed company would have to issue a public announcement to disclose the full effect of a significant acquisition on it (paragraph 11 of Appendix 10A to the Bursa Malaysia Main Market Listing Requirements).

(c):
We agree with the IASB's preliminary view to replace the term 'profit or loss', subject to:

(i) alignment with the term used in the final Standard upon finalisation of Exposure Draft ED/2019/7 *General Presentation and Disclosures*, currently identified as 'operating profit', and

(ii) clear definition of the term 'integration costs' which the IASB has acknowledged in paragraph 2.80 of the Discussion Paper as yet to be discussed.

We are also agreeable to the proposal on disclosure of 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 insofar that the disclosures are not tantamount to providing a statement of cash flows.

With regard to the two options being considered by the IASB in paragraph 2.87 of the Discussion Paper, we believe that requiring companies to disclose how they have prepared the pro forma information would be more in line with the principle-based nature of the IFRS Standards.

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Question 6

As discussed in paragraphs 3.2–3.52, the IASB 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 IASB'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 IASB 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 IASB consider any other aspects of IAS 36 in this project as a result of concerns raised in the Post-implementation Review (PIR) of IFRS 3?

Response

We are of the view that the impairment test serves to hold management to their promises in relation to a particular acquisition. However, we concur with the view set out in paragraph 3.2 of the Discussion Paper that impairment losses on goodwill are sometimes recognised too late and should be recognised on a timelier basis. In addition, the concept of 'shielding' is not easily understood.

We thus recommend that the IASB considers the following hybrid approach:

(i) for intangible assets with finite useful life, to apply a hybrid of annual amortisation and trigger-based impairment test (as described in the proposed relief).

(ii) for intangible assets with indefinite useful life, to continue to require an annual quantitative impairment test.

For avoidance of doubt, we are of the view that goodwill falls under category (i) and should be subject to the combination of annual amortisation and trigger-based impairment test. Please refer to our response in Question 7 for further details.

We also recommend that the IASB reconsider its preliminary view, set out in paragraphs 4.55–4.56 of the Discussion Paper, against developing simplifications and guidance for the impairment test. Please refer to our response in Question 11 for further details.

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Question 7

Paragraphs 3.86–3.94 summarise the reasons for the IASB'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 IASB should not reintroduce amortisation of goodwill? Why or why not? (If the IASB were to reintroduce amortisation, companies would still need to test whether goodwill is impaired.)

(b) Has your view on amortisation of goodwill changed since 2004? What new evidence or arguments have emerged since 2004 to make you change your view, or to confirm the view you already had?

(c) Would reintroducing amortisation resolve the main reasons for the concerns that companies do not recognise impairment losses on goodwill on a timely basis (see Question 6(c))? Why or why not?

(d) Do you view acquired goodwill as distinct from goodwill subsequently generated internally in the same cash-generating units? Why or why not?

(e) If amortisation were to be reintroduced, do you think companies would adjust or create new management performance measures to add back the amortisation expense? (Management performance measures are defined in the Exposure Draft *General Presentation and Disclosures*.) Why or why not? Under the impairment-only model, are companies adding back impairment losses in their management performance measures? Why or why not?

(f) If you favour reintroducing amortisation of goodwill, how should the useful life of goodwill and its amortisation pattern be determined? In your view how would this contribute to making the information more useful to investors?

Response

<u>(a) – (d):</u>
We disagree with the IASB's preliminary view of not reintroducing the amortisation and instead retaining the impairment-only model for the subsequent accounting for goodwill.

Our view on amortisation of goodwill remains largely consistent since 2004. In our 28 March 2003 response to IASB ED 3 *Business Combinations*, we were of the view that the issues raised by the alternative views of the two IASB members, as set out in the Basis for Conclusions to ED 3, should be given due consideration.

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There is shortcoming in the impairment approach to goodwill, in particular, due to the inability to eliminate internally generated goodwill accruing after a business combination from the measure of goodwill's implied value. This shortcoming would provide a 'cushion' against the recognition of impairment losses of purchase goodwill by the 'indirect' recognition of internally generated goodwill. In this case, it will be inconsistent with IAS 38 *Intangible Assets* that prohibits recognition of internally generated goodwill.

Since 2004, we observed that:

(i) the retention of the impairment-only model for goodwill encourages companies to defer impairment, and increases the risk of addressing 'too little, too late'.

Every business has its cycle of 'good years' alternating with 'bad years'. During 'good years', it is unlikely that goodwill will be impaired, and this is reflected indefinitely in the financial statements. However, during the 'bad years', subject to the presence of indicators of impairment, goodwill may be written off, never to be reinstated even if 'good years' are experienced at a later date.

(ii) it is in rare circumstances that a particular business can successfully sustain a particular brand name over an extended period of time, e.g. over a century.

In such cases, it is highly likely that any goodwill arising from the initial acquisition would have been replaced by internally generated goodwill.

It is thus our view that although amortisation of goodwill may not be a perfect method, it remains a more effective method of reflecting the consumption of goodwill over time against revenue earned from the acquisition. Coupled with trigger-based impairment tests, we believe this can effectively address concerns on 'shielding' as this will prevent acquired goodwill from being gradually and implicitly 'replaced' by internally generated goodwill (i.e. indirect recognition of internally generated goodwill). The use of trigger-based impairment testing is also likely to be less costly compared to annual quantitative impairment testing.

(e):
No, we are of the view that companies would not adjust or create new management performance measures to add back the amortisation expense, for the reasons as set out above.

(f):
We are of the view that the estimation of useful life of goodwill and its amortisation pattern should be subject to management's judgement, and that the reintroduction of goodwill amortisation would result in financial statements which are more faithfully representative of the business in the longer run. In making such estimations, the management could consider its own historical experience, or alternatively, assumptions used by market participants consistent with the highest and best use of the asset as adjusted for entity-specific factors.

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In this respect, the IASB could consider providing guidance on when an entity is required to provide disclosures about such estimates, including consideration of whether the effect of the useful life or change in useful life or expected likelihood of renewal or extension of goodwill would be material to the financial statements, either individually or in aggregate by major intangible asset class.

Question 8

Paragraphs 3.107–3.114 explain the IASB'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 IASB 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 IASB develop such a proposal? Why or why not?

(b) Do you have any comments on how a company should present such an amount?

Response

We have no major objection to the IASB's preliminary view to develop a proposal to require companies to present on their balance sheets the amount of total equity excluding goodwill.

We note from paragraphs 3.108 – 3.110 of the Discussion Paper that the IASB has opted to focus on goodwill given its unique nature and that this proposal is intended to provide further transparency about the effect of goodwill and so contribute further to investors' understanding of a company's financial position, as it can help to highlight those companies for which goodwill is a significant portion of their total equity. At the same time, we note from paragraph 3.112 of the Discussion Paper that the IASB does not intend to pursue this change as changing the structure of the financial statements to allow the presentation of this subtotal could be too disruptive.

Based on our observations, in applying the existing requirements of IAS 38, goodwill is clearly disclosed in the notes to the financial statements. We thus concur with paragraph 3.110 of the Discussion Paper that it is simple for investors to calculate this amount. Hence, we would like to seek further clarification as to whether there is a compelling need for goodwill to be separately identified and disclosed on the face of the statement of financial position.

Question 9

Paragraphs 4.32–4.34 summarise the IASB'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.

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(a) Should the IASB 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?

Response

(a) – (b):
With reference to our responses in Questions 6 and 7, we disagree for the IASB to develop the proposal to remove the requirement to perform a quantitative impairment test every year unless amortisation is reintroduced along with indicator-based impairment.

We are of the view that sole dependence on the trigger-based impairment test approach is unlikely to address concerns relating to the delayed recognition of impairment losses arising from the current annual quantitative impairment test approach. We are also doubtful that applying a trigger-based impairment test approach alone would significantly reduce costs, as the indicators of impairment would be present.

With respect to intangible assets not yet available for use, we believe that the trigger-based impairment test would be sufficient.

(c):
We are of the view that the robustness of the impairment test depends on the assumptions that the test is based on as well as the statistical method used for the test inputs. Accordingly, we believe that the removal of the annual quantitative impairment test approach would not affect the robustness of the impairment test.

Question 10

The IASB'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 IASB expects that these changes would reduce the cost and complexity of impairment tests and provide more useful and understandable information.

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

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(b) Should the IASB 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.

Response

We agree that companies should be allowed to use post-tax cash flows and post-tax discount rates in estimating value in use.

While we have no major objections to the IASB's preliminary view and proposal 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, we wish to highlight the following concerns:

(i) Having considered the guidance in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* on determining when a company is committed, we note that an entity could arbitrarily change its mind and take a different course of action at any point prior to there being a binding sale agreement.

Thus, we find that the inclusion of cash flows arising from a future uncommitted restructuring may inadvertently increase the complexity of impairment testing, which in turn may negate the benefits expected to be derived from the removal of the IAS 36 restriction.

(ii) The proposed removal of the IAS 36 restriction may render the cash flows open to greater misuse.

Notwithstanding that companies would be required to use reasonable and supportable assumptions based on the most recent financial budgets or forecasts approved by management, we are concerned that the inclusion of such cash flows may instead introduce greater uncertainty and compromise the reliability of disclosures.

(iii) We note the IASB's view that over-optimistic cash flow estimates could be more effectively addressed by auditors or regulators rather than through a probability threshold or additional qualitative disclosures (paragraph 4.42 of the Discussion Paper). In this respect, the IASB may wish to consider whether the inherent uncertainty in the assumptions about an entity's decision and final course of action may render such assumptions difficult to regulate or challenge. This may result in financial statements which are misleading.
At this juncture, we also wish to re-emphasise that the responsibility for the faithful representation and reliability of financial statements rests with the preparers, and not the auditors and regulators.

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In light of the above, in the event that the IASB proceeds with the proposed removal of the IAS 36 restriction, we recommend for more guidance be provided to facilitate the thought process involved in assessing the level of commitment of 'future uncommitted restructuring' and the extent to which the cash flows estimates from these should be included.

Question 11

Paragraph 4.56 summarises the IASB's preliminary view that it should not further simplify the impairment test.

(a) Should the IASB 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?

Response

We noted the IASB's rationale and preliminary view that certain simplifications and guidance for the impairment test should not be developed.

However, we have also received feedback from preparers who expressed that they face challenges in applying the impairment test, in particular to those scenarios listed in paragraph 4.55 of the Discussion Paper, and that these challenges faced are indicative that guidance is not sufficient, contrary to the explanation by the IASB in paragraph 4.56(a) of the Discussion Paper.

Hence, we recommend that the IASB reconsider its preliminary view against developing principle-based simplifications and guidance for the impairment test. For example, rather than developing a specific list of examples of triggering events, the IASB could develop a principle-based thought process to guide allocation of goodwill which could be complemented by an internal assessment control mechanism to strengthen and provide a more reliable basis for estimating impairment test outcome while mitigating the shielding effect and delays in disclosure. This would help to reduce allocation inappropriateness while also enhancing management's integrity and transparency in discharging their stewardship responsibilities.

However, in the event that the IASB maintains its preliminary view, the IASB may instead wish to consider providing further clarification on the reasons why the simplifications and guidance for the impairment test should not be developed, in particular for those scenarios listed in paragraph 4.55 of the Discussion Paper.

Question 12

Paragraphs 5.4–5.27 explain the IASB's preliminary view that it should not develop a proposal to allow some intangible assets to be included in goodwill.

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(a) Do you agree that the IASB 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 IASB 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?

Response

(a) – (b):
We agree with the IASB's preliminary view that it should not develop a proposal to allow some intangible assets to be included in goodwill, in view that combining these would result in the commingling of identifiable and unidentifiable intangible assets.

With regard to the approaches discussed in paragraph 5.18 of the Discussion Paper, we are of the view that none would reduce complexity and costs since IFRS 3 continues to require identifiable assets acquired to be recognised separately from goodwill.

(c):
Any change to our views above is subject to further clarity being provided on the amortisation of 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?

Response

No, we confirm that our answers to the questions in this Discussion Paper do not depend on whether the outcome is consistent with US GAAP.

However, we believe that convergence or, at minimum, having a consistent outcome would be beneficial for those companies who need to prepare financial statements in compliance with both financial reporting frameworks.

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Question 14

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

Response

Paragraph 5.24 of the Discussion Paper states that it is outside the scope of this research project to consider the concerns of investors who want to compare companies that grow by acquisitions more easily with those that grow organically. Notwithstanding that the investors' concerns may be largely related to governance and accountability, we believe that a broader project on intangible assets to compare those acquired in a business combination and those generated internally would be beneficial and useful for investors and other users of financial statements.

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