

Position Paper

Joint response to IASB discussion paper on business combinations—disclosures, goodwill and impairment

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This response has been drafted by the European Insurance CFO Forum (CFO Forum), a body representing the views of 23 of Europe's largest insurance companies, and Insurance Europe, which represents 95% of the premium income of the European insurance market. Accordingly, it represents the consensus view of the European insurance industry.

Our responses to the International Accounting Standards Board (IASB) discussion paper "DP/2020/1 Business Combinations—Disclosures, Goodwill and Impairment" can be found below.

Section 1 – Introduction

Question 1

Paragraph 1.7 of the DP summarises the objective of the IASB research project. Paragraph IN9 of the DP summarises the IASB preliminary views. Paragraphs IN50– IN53 of the ED 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.

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?

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?

European insurers support the objective of the IASB discussion paper to explore whether companies can, at a reasonable cost and respecting the cost-benefit balance, provide investors with more useful information about the acquisitions those companies make. We recognise that some concerns have been raised in the past, by preparers and users, on the existing accounting model for goodwill purchased in a business combination.

Members of Insurance Europe and the CFO Forum have differing views on how these objectives should be met, in particular on the question of subsequent measurement of goodwill (ie impairment only approach versus goodwill amortisation). Some would like the IASB to maintain the current impairment only approach, with improvements to impairment testing. Others would like the IASB to abolish the current impairment only approach and re-introduce amortisation of goodwill as soon as possible.

As proponents of the respective approaches cannot be convinced to agree to one alternative, we recommend that the IASB explore a compromise that is pragmatic and yet retains much of the relevant conceptual underpinning. This might take the form of allowing for an accounting policy choice: ie allowing amortisation and impairment only as optional approaches for the reporting entity to choose between, with appropriate disclosure, including the rationale for the accounting policy choice.

On the proposed additional disclosures on acquisitions presented in this discussion paper, we have concerns that detailed disclosure of a company's post-acquisition intentions together with precise targets could be commercially sensitive and result in a disproportionate volume of disclosures with questionable quality and would impair management's ability to provide coherent, concise, and therefore useful, information to users of the accounts and of the management commentary. We are also concerned by the proposed post-acquisition disclosures about whether the acquisition meets its initial objectives.

On some of the more explicit proposals described in the discussion paper, we support, in principle, the proposals to reduce the cost and complexity of performing the impairment tests in line with IN9 (e) and (f) and we encourage the IASB to further investigate the potential benefits in terms of cost reduction and robustness of the accounting model. On the proposal to disclose on the balance sheet a subtotal of equity before goodwill, we believe that it would be more harmful than beneficial as it would not be consistent with the nature of the goodwill as a genuine asset.

Section 2—Improving disclosures about acquisitions

Question 2

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

Do you think those disclosure requirements would resolve the issue identified in paragraph 2.4 of the DP—investors’ need for better information on the subsequent performance of an acquisition? Why or why not?

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 of the DP). 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 of the DP), 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 of the DP).**
- (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 of the DP).**
- (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 of the DP).**
- (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 of the DP).**

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 of the DP)? 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?

Could concerns about commercial sensitivity (see paragraphs 2.27–2.28 of the DP) 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?

Paragraphs 2.29–2.32 explain 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?

European insurers recognize the objective of the IASB preliminary view. However, we have concerns that detailed disclosure of a company’s post-acquisition intentions together with precise targets could be commercially sensitive and result in a disproportionate volume of disclosures with questionable quality.

Besides, in the insurance industry, many acquisitions are based on cost synergies, because it is expected that managing larger portfolios of contracts will provide cost savings. However, tracking these cost savings along the subsequent periods after the acquisitions for the purpose of a disclosure may be difficult, unreliable and thus irrelevant for the users.

Furthermore, acquisitions generally are a long-term project and, whatever the objective could be, its achievement can hardly be assessed over a short (eg two-years or three-years) period. For example, for a foreign subsidiary acquired with the goal of penetrating a new market, the acquisition’s overall objective may only be achieved over a long (eg 10- or 15-years) period, whereas any interim assessment may show discouraging results. Also, should the metrics used to monitor the objectives of an acquisition be changed, even for a good reason, this may be negatively perceived by users who may interpret it as a failure in meeting the initial objectives.

We are also concerned that information about management’s objectives for an acquisition along with detailed targets could, in some jurisdictions, be overly costly, difficult to audit and be considered as forward-looking information that could risk litigation. Therefore, it should be provided outside of financial statements – eg in the management commentary – to reduce the risk of litigation.

Indeed, more generally we take the view that the management commentary is the appropriate place for management to explain the performance of the business and any part of it, including for acquisitions. By contrast, the disclosures in the notes to the accounts are aimed at providing more information about the items presented in the primary statements (eg what these items comprise, on what basis they have been valued, what risks there are to those values) which new disclosures suggested in the Board’s proposals do not do. The effect would be to distort the view given by the accounts overall – by contrast, equivalent performance information is not to be given for significant expenditure on tangible and intangible fixed assets, nor on significant ‘intangible’ expenditure that is expected to give rise to benefits in future periods but is not capitalised. Further, if all such ‘capital’ expenditure were to be explained in these way, the management’s narrative would become disjointed and risk incoherence because the purposes of the notes would be mixed, and management’s accountability could be impaired.

We are especially concerned by the IASB proposals relating to the subsequent disclosures about whether the acquisition meets those objectives. We do not share the idea of any straightforward relationship between the achievement / non-achievement of the acquisition’s objective and the need to impair the corresponding goodwill. By consequence, we consider that providing detailed disclosures on the achievement of these objectives (and especially any quantitative measurement of it) is useless, as far as this information does not support the measurement of financial statements’ items. Such disclosures would go beyond the role of the financial statements.

In general, this part of the discussion paper covers the most contradictory part of the IFRS 3 post implementation review. We recommend that the IASB investigate the issue in more detail before any further proposals are presented and consider potential level playing field concerns.

Should the IASB decide to go ahead with the proposed additional disclosures, we would rather have the information related to acquisitions be provided at a chief operating decision maker (CODM) level: ie any disclosure requirements should not result in an entity providing information that the CODM does not use in its monitoring of the acquiree's performance. However, this information should remain rather qualitative as it would be disproportionate to require that external users benefit from the same level of information as the entity's top management. Moreover, we understand that general materiality criteria apply (ie only material acquisitions should be subject to such disclosures). Nevertheless, an explicit clarification might be helpful.

Question 3

Paragraphs 2.53–2.60 of the DP 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:

- (a) the benefits that a company's management expected from an acquisition when agreeing the price to acquire a business; and**
- (b) 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?

While European insurers support the introduction of disclosure objectives as opposed to extensive rules, we have concerns that the disclosure objectives presented in this discussion paper will lead to increased financial statement complexity and additional audit cost burden. We believe that some of the proposals are not only commercially sensitive, but also overly complex and require significant judgement. There is a risk of having either a variety of different ways of fulfilling this requirement or the usage of standard phrases with little entity-specific information in the financial statements. In addition, these proposals seem to suggest that there is a direct link between the extent to which an acquisition is meeting managements' objectives for the acquisition and the amount of the goodwill resulting from the acquisition price. However, as mentioned in our response to question 2, we consider that there is no direct link between the achievement or non-achievement of an acquisition's objectives over a short (eg two- or three-years) period and the reported goodwill figures. Similarly, we agree with the IASB observation in the discussion paper that the impairment test on the goodwill number is not a measure of whether the business combination was successful or not.

Altogether, the proposals cause more confusion about the complex accounting requirements that the business combinations standard prescribes, rather than improving the understandability of the financial statements.

Question 4

Paragraphs 2.62–2.68 and paragraphs 2.69–2.71 of the DP explain the IASB's preliminary view that it should develop proposals:

- (a) to require a company to disclose:**
 - (i) a description of the synergies expected from combining the operations of the acquired business with the company's business;**
 - (ii) when the synergies are expected to be realised;**
 - (iii) the estimated amount or range of amounts of the synergies; and**
 - (iv) the expected cost or range of costs to achieve those synergies; and**

(b) 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?

As a general point, we take the view that the IASB's views on acquisition objectives are excessively focused on synergies. Acquisitions are not always operated in order to achieve synergies. For example, a foreign subsidiary may be acquired with the objective to penetrate a new market and not to achieve synergies. Therefore, the other possible objectives of an acquisition should also be considered by the IASB.

European insurers take the view that the proposed disclosures in the IASB preliminary views may in some cases be commercially sensitive, and therefore do not support additional requirements as laid out in the IASB preliminary views. We are not opposed to providing more detailed qualitative information about synergies (or others benefits) expected from an acquisition, but we disagree with any requirement to provide quantified estimates in this respect. Disclosing this information may be sensitive when revealed to competitors (eg information on margins, costs and competitive strategies) or to employees (restructuring or other plans in advance of an official announcement). As explained in our response to question 2, producing this amount of detailed information could imply significant judgement cost that would outweigh the benefits of providing this information.

In practice, information about synergies is often required by users and analysts, and provided by companies in the management performance report. We do not see a need for the IASB to make an explicit requirement to have it mandatorily disclosed with the risk of commercial information to be divulged.

Finally, we agree with the Board's proposal to disclose separately the amount of liabilities from financing activities and defined benefit pensions liabilities acquired as part of the acquired business, when material.

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 of the DP 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 of the DP 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.***
- (c) ***Do you agree with the IASB's preliminary view? Why or why not?***

We agree in part with the assessment that was made in the IFRS 3 post-implementation review, but we have concerns about the IASB's proposal to retain the existing IFRS 3 requirement to provide the pro forma information on the combined business' profit or loss for the acquisition's annual period as though the acquisition date had been at the beginning of this period, regardless of whether or not the 'profit or loss' is replaced with 'operating profit before acquisition-related transaction and integration costs'.

Furthermore, the pro-forma information on the combined business' operating profit before acquisition-related transaction and integration costs which would be disclosed under the IASB proposal would not be useful because it is purely hypothetical and there is a lack of guidance on how to prepare the information. Therefore, companies would prepare the information in different ways and information about the revenue and profit of the acquired business before the acquisition is not always readily available.

Producing pro forma information, whether it is in the 'profit or loss' or in the 'operating profit before acquisition-related transaction and integration costs' implies complexity of how to address the related transaction in a business combination (eg the funding through foreign capital and how this should be addressed in pro forma information) comes at a significant cost which is not justified by the added information benefit. The requested figures are pure estimates based on financial statements issued by the previous owner. This information is not necessarily indicative of the results that could have been achieved within the acquirer's group if the acquisition had taken place on January 1 of the acquisition period. In particular, this information does not factor in any synergy, nor does it provide an indication of future results. Producing such information is almost as burdensome as producing another purchase GAAP set of accounts as of January 1, especially if two different accountings (such as IFRS and US GAAP, for instance) are involved.

For insurers, producing pro forma information under IFRS 17 would be a highly complex and time-consuming exercise. This will be particularly the case, for example, when:

- The fair value of the insurance liabilities at the acquisition date is different from the IFRS 17 measurement and thus not always comparable before and after acquisition.
- The classification of insurance liabilities into accounting models has to be assessed at the acquisition date instead of the original inception date. This means that this classification would have to be performed also at 1 January for pro forma purposes.
- The insured event has to be determined at acquisition date. It will therefore have to be determined again as at 1 January.

Consequently, producing pro forma information would potentially require performing a second business combination at 1 January.

Finally, we do not support the requirement to disclose, in addition, cash flows from operating activities of the acquired business as, in our opinion, the cash-flow-related information is worthless for a financial institution.

Section 3— Goodwill impairment and amortisation

Question 6

As discussed in paragraphs 3.2–3.52 of the DP, 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 of the DP 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?**

European insurers appreciate the IASB's attempt to make the impairment loss recognition process more effective. However, we acknowledge that it is very challenging to design an impairment test that is significantly more effective at the timely recognition of impairment losses on goodwill at a reasonable cost.

We do not share the Board's views on the 'timeliness issue' and on the management's over-optimism as a reason for it. We believe that the management's estimates that do not lead to a goodwill write-down are not necessarily 'too optimistic'. The management uses judgment to appreciate if, and to what extent, an unfavourable event or adverse change in economic environment modify the long-term value of a Cash Generating Unit (CGU). Impairment tests are based on reasonable long-term assumptions and their results are dependent on the residual value, thus, a short-term adverse event does not automatically result in impairment.

We also believe that the timeliness issue, if there is any, can be mitigated if requirements in International Accounting Standard (IAS) 36 are duly enforced. The quality of the impairment tests, including assumptions and estimates used, is under the responsibility of preparers and these tests (both their inputs and outcomes) are subject to audit requirements. This information is also disclosed so that the users of the financial statements can appreciate and challenge it if necessary.

We agree with the Board's view that the shielding effect prevents, the recognition of impairment losses on goodwill acquired, and we also agree that there is no reasonable solution to design a more effective impairment test that would significantly reduce the shielding effect.

Finally, we share the Board's preliminary view that designing a more effective impairment test at a reasonable cost is not feasible. Any alternative approach will always have limitations because of the specific nature of goodwill as an asset that does not generate cash flows and, thus, cannot be measured independently and directly.

Question 7

Paragraphs 3.86–3.94 of the DP 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?**

The views of Insurance Europe and CFO Forum members differ on whether goodwill amortisation should be re-introduced. Some would like the IASB to maintain the current impairment only approach, with improvements to impairment testing. Others would like the IASB to abolish the current impairment only approach and re-introduce linear amortisation as soon as possible.

As proponents of the respective approaches cannot be convinced to agree to one alternative, we recommend that the IASB explore a compromise that is pragmatic and yet retains much of the relevant conceptual underpinning. This might take the form of allowing for an accounting policy choice: ie allowing amortisation and impairment only as optional approaches for the reporting entity to choose between, with appropriate disclosure, including the rationale for the accounting policy choice.

The views of members who take the view that the IASB should abolish the current impairment only approach as soon as possible and to re-introduce amortisation are as follows:

- While the internally generated goodwill is rightly not recognised in IFRS financial statements, the purchased goodwill is treated as a recognisable intangible asset and measured subsequently via the impairment only approach. However, the existing prohibition of the scheduled amortisation of the purchased goodwill is highly problematic as it has significant negative consequences. In particular, the current impairment only approach is not working properly as it results in too little and too late impairment recognition. The reason is that the design of the impairment only approach requires an implicit recognition of internally generated goodwill which leads to continued replacement of goodwill acquired by the goodwill internally generated (ie contrary to the existing explicit prohibition of its recognition in IAS 38.48).
- Reporting entities growing organically are systematically put in a disadvantage and the accounting treatment incentivises merger and acquisition activities. The latter result in a significant increase in the amounts of goodwill recognised in balance sheets. The impact of the 'too little and too late' phenomenon might in consequence lead to significant pro-cyclical effects contradicting the political goal of stable economic growth.
- Certain stakeholders (ie investors and supervisors) are already writing off any goodwill when considering the solvency of an enterprise, making amortization of goodwill unnecessary in that regard. In addition, Solvency II does not allow for the goodwill to be recognised in the market value balance sheet.
- Therefore, the removal of the impairment only approach is not only necessary for conceptual reasons as noted above but would also significantly reduce the compliance costs for reporting entities, efforts of statutory auditors and of enforcement authorities. The linear amortisation of

goodwill is a pragmatic, transparent and cost-effective solution which contributes to more robustness of balance sheets at micro basis and financial stability at macro level.

- The determination of useful life of goodwill is not more complex than for any other tangible or intangible asset. As a pragmatic default solution, the IASB might set a predetermined maximum for it, if the useful life cannot be reliably estimated in particular circumstances.
- The introduction of an impairment only approach was rather politically motivated after the Financial Accounting Standards Board's (FASB) preceding decision in 2001 (in conjunction with the abolition of the pooling-of-interest method) than caused by conceptual problems with the application of amortisation approach.
- The increasing concern of those opposing the impairment only approach is that the IASB might rather intend to generally corroborate the current impairment only approach instead of allowing for a switch to amortisation as a more appropriate, pragmatic and cost-effective alternative for preparers.

The views of those members who would like the IASB to maintain the current impairment only approach, with improvements to impairment testing are as follows:

- The existing impairment only approach (ie the prohibition of systematic amortisation over a pre-determined period) was introduced in 2004 because the IASB decided that it is not possible to predict either the useful life of acquired goodwill or an amortisation pattern, unlike other intangible assets and tangible assets. This makes any year's amortisation charge at best completely arbitrary, and likewise also the remaining balance sheet value and therefore does not provide relevant information to the investor.
- There is no significant evidence that it has become more possible than in 2004 to predict either goodwill's useful life or its amortisation pattern, nor that users of financial statements now (in contrast to 2004) regard a completely arbitrary amortisation charge or balance sheet value as providing useful information.
- It is not clear that all goodwill is consumed over time and replaced by internally generated. Some at least is likely to be sustained by rationalisation and future investment.
- In any case, goodwill does not lose value in the same way as other assets. Instead it does so because of individual events and these are better reflected as impairment charges, eg changes in the business environment, for which impairment charges better reflect the economic reality; and/or and failures of management, for which impairment charges better reflect the stewardship/accountability objective of financial reporting. Both these kinds of signalling to capital markets participants have substantial micro-and macro-economic benefits.
- Good impairment testing is necessary for both the impairment-only and the amortisation approaches. It needs to be as effective as possible and reduce any incidence of 'too little/too late'. It should not be weakened through some form of simplification in the case of the amortisation approach. Instead, the IASB considers that improvements to impairment testing are possible, and investors have supported the IASB in principle in this respect.
- If it is possible to simplify impairment testing as well as make it more effective, that would be welcomed in reducing compliance costs for preparers, auditors, investors, regulators and other users.
- If goodwill is reduced in value by arbitrary amortisation over time, the value of an impairment charge will only partially reflect the impairment event itself. This conveys less relevant information to the investors, and it provides a poorer basis for management to be accountable.
- Preparers, auditors and users have got used to the existing treatment of goodwill, and any changes to this are likely to be costly. Hence changes should be avoided unless they are clearly supported by cost/benefit analysis - which does not appear to have been carried out so far.

- The current IASB guidance on allocation of goodwill to the CGUs is sufficient and any misuse of this guidance should rather be addressed by auditors and regulators and not by providing additional guidance.

Question 8

Paragraphs 3.107–3.114 of the DP 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?**

On the proposal to disclose on the balance sheet a subtotal of equity before goodwill, we take the view that it would be more harmful than beneficial, as it would not be consistent with the nature of the goodwill as a genuine asset, and therefore disagree with the IASB proposal. With clear presentation and disclosure, investors can decide for themselves whether to make such a calculation, for their own purposes. An IASB requirement for this disclosure would convey a message that investors are expected to do so, even casting doubt on whether it would be beneficial to increase the transparency regarding the impact of the goodwill has on the equity position of the entity. Specifically, should the impairment only model be retained, it is necessary to highlight the unique nature of the acquired goodwill being recognised as an asset while being a non-transferable residual amount out of the purchase price allocation.

Section 4—Simplifying the impairment test

Question 9

Paragraphs 4.32–4.34 of the DP 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.

- (a) Should the IASB develop such proposals? Why or why not?**
- (b) Would such proposals reduce costs significantly (see paragraphs 4.14–4.21 of the DP)? 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 of the DP)? Why or why not?**

If it is possible to simplify impairment testing as well as make it more effective, that would be welcomed in reducing compliance costs for preparers, auditors, investors, regulators and other users. Should the annual quantitative impairment test requirement be removed, given the experience in impairment testing accumulated by the entities, we do not share the concern this decision would make the impairment test itself significantly less robust.

However, we take the view that there is a risk that the metrics proposed in question 2 to monitor the objectives of the acquisition may be considered as impairment triggers or “indication of impairment”. These two notions are aimed at different objectives, but users may think that not reaching the objectives should lead to an impairment loss whereas the impairment test does not show any loss in value.

Question 10

The IASB's preliminary view is that it should develop proposals:

- (a) 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 of the DP); and**
- (b) 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 of the DP).**

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

- (c) Should the IASB develop such proposals? Why or why not?**
- (d) 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.**

We support IASB's proposal to allow companies to use post-tax cash flows and post-tax discount rates in estimating value in use as it is aligned with commonly used valuation methodology and these changes are expected to result in a better representation of the future cash flows from the business combination and be more in line with management estimates.

However, the proposed requirement for additional 'discipline' seems inappropriate and unnecessary.

Relating to the 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 take the view that it is positive that the IASB wants to simplify the process and to align it with the management view without undermining the robustness of the test. However, more investigation should be done to conclude which cash flows can be included in estimating value in use and which cash flows should be defectively prohibited from this.

Question 11

Paragraph 4.56 of the DP 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?**

If it is possible to simplify impairment testing, as well as make it more effective, that would be welcomed in reducing compliance costs for preparers, auditors, investors, regulators and other users.

Section 5—Intangible assets

Question 12

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

Do you agree that the IASB should not develop such a proposal? Why or why not?

- (a) 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?**
- (b) Would your view change if amortisation of goodwill were to be reintroduced? Why or why not?**

European insurers recognise that isolating intangible assets acquired in a business combination separately from goodwill might be costly and complex. Furthermore, some of these intangible assets tend to be ignored (at least by some users) particularly if the measurement is perceived to be too subjective. It is accordingly questionable whether the benefits of identifying some intangible assets would outweigh the costs involved.

We do not support the idea to allow some intangible assets to be included in goodwill. Doing so would obscure the nature of the goodwill and make the entire IASB project deviate from its objective to improve accounting and disclosures for the goodwill.

We take the view that the separate recognition of intangible assets is useful since it provides users with a better understanding of what has been paid for through the acquisition price. Their measurement may sometimes be difficult, but most entities have sufficient expertise in this area.

Section 6—Other recent publications

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 of the DP summarise an Invitation to Comment issued by the US Financial Accounting Standards Board (FASB).

Do your answers to any of the questions in the DP 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?

No. Our answers do not depend on whether the outcome is consistent with US GAAP, but we encourage the IASB, as the established global standard setter, to show leadership and make a directional decision on the way forward regarding goodwill accounting while taking into account level playing field considerations.

Question 14

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

No comments.