15 July 2024

Dr Andreas Barckow
Chair
International Accounting Standards Board
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Via online submission: www.ifrs.org

Dear Andreas

Exposure Draft: Business Combinations – Disclosures, Goodwill and Impairment

Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia and represent over 300,000 professional accountants who work in diverse roles across public practice, commerce, industry, government and academia throughout Australia, New Zealand and internationally. We welcome the opportunity to provide feedback on the above Exposure Draft (the ED) and make this submission on behalf of our members and in the public interest.

We commend the International Accounting Standards Board (IASB) for progressing to the ED from the preceding Discussion Paper – *Business Combinations – Disclosures, Goodwill and Impairment* DP/2020/1 (the DP). Specifically, we appreciate the work which considers the practical challenges regarding the proposed disclosures for business combinations. Our joint submission on the DP expressed support for the overall objectives of the disclosure proposals to provide useful information about business combinations and their subsequent performance.

However, the concerns we raised in our joint submission on the DP remain largely unresolved in the ED. Overall, we do not support the proposals because, in our view they:

- Do not justify the implementation costs,
- Come with several practical challenges, including commercial sensitivity and auditability of the proposed disclosures, and
- May create an expectation gap in the context of the audit of the financial statements.

Therefore, we do not believe the proposed disclosures would achieve their intended purpose.

Business combination disclosures

We continue to support the objective of the proposals in the ED. However, we do not believe the ED has struck the right balance in improving the information companies provide to investors about acquisitions while considering the costs and risks to companies making these proposed disclosures. The practical challenges that we and many other submitters raised in response to the DP remain a concern in the ED.

The proposed disclosures comprise detailed performance-related and quantitative information about expected synergies from business combinations. In most cases, this information is commercially sensitive, and could have a counter-productive effect on the achievement of performance targets.

Furthermore, an expectation gap may arise whereby some investors might incorrectly believe that auditors have assured the achievability of disclosed key objectives, targets, and expected synergies, when in fact auditors can only check whether the disclosed information matches what was reviewed by management.

For this reason, we are not convinced that the financial statements are the appropriate place for some of the proposed disclosures. For example, synergy-related disclosures are typically found in management commentaries, or in Australia – the Operating and Financial Review (OFR), which are outside the audited financial statements.

We support limiting some of the performance-related information to only a subset of material business combinations, and we support the threshold approach as the most objective way to determine this. However, in our review the quantitative thresholds are too low and may lead to unintended or excessive disclosures. In the qualitative thresholds, there are different interpretations of what 'geographical' and 'major line of business' mean.

While we agree with the principle behind the proposed exemption, we do not believe that it goes far enough to fully alleviate the concerns around the disclosure of commercially sensitive information.

The impairment test

We do not believe the proposed amendments adequately address the main issue that the IASB investigated in the DP i.e., goodwill shielding "too late, too little recognition of impairment". We reiterate that a fundamental review of IAS 36 *Impairment of Assets* is needed to address stakeholder concerns and the current model's complexity, especially for smaller listed companies.

The current approach of conducting an annual impairment test of goodwill is an area of accounting that creates a number of challenges for preparers, auditors and regulators alike. Corporate regulators around the world, as part of their financial reporting surveillance and audit inspection programs, often identify impairment as an area that requires improvement.

While we appreciate that ten of 11 IASB members voted to retain the impairment-only approach for goodwill accounting, feedback we received from members indicates there is still support for reintroducing the amortisation model as a means of addressing the practical challenges associated with the impairment test. The reintroduction of amortisation, while maybe not technically pure, would be a pragmatic approach that is likely to be less expensive and less complex to comply with. The precedent being the FASB accounting standards which allow certain entities to adopt an amortisation model.

One of the impediments to reintroducing the amortisation model appears to be the presumption that goodwill has indefinite life. Given the ever-changing and increasingly technological environment in which today's businesses operate, the presumption of indefinite life of goodwill is questionable. This is evidenced in research by CA ANZ and the University of Melbourne; *How long is the piece of string?* which looks at impairment frequency and magnitude across companies globally. The report found that on average, about 20% of firms impair goodwill every year. The impairment frequency and magnitude imply the effective close to complete write-down of goodwill to zero over a 15-year period.

We are aware that many users of financial statements seek to eliminate the impact of impairment testing and goodwill as standard practice before undertaking their analysis, due to the very complex and subjective nature of the current approach. This means what is often the greatest effort and cost investment each year in financial reporting and auditing worldwide yields very few benefits for users of financial statements.

We again put forward our recommendation to explore a hybrid approach whereby an entity would carry out an annual impairment test of goodwill in the first few years after an acquisition, followed by amortisation of goodwill in later years. We see two potential merits with such an approach. Firstly, it better addresses the wasting component within goodwill. Secondly, it can address the challenge of providing relevant and reliable information to users in later years by requiring the amortisation of goodwill that may have been contaminated by shielding from headroom and over-optimistic cashflow forecasts.

Our responses to the specific questions raised in the ED are included in the **Attachment** to this letter. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Tiffany Tan at tiffany.tan@cpaaustralia.com.au (CPA Australia) or Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com.

Yours sincerely

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Attachment

Question 1—Disclosures: Performance of a business combination (proposed paragraphs B67A–B67G of IFRS 3)

In the PIR of IFRS 3 and in responses to the Discussion Paper the IASB heard that:

- **users need better information about business combinations to help them assess whether the price an entity paid for a business combination is reasonable and how the business combination performed after acquisition. In particular, users said they need information to help them assess the performance of a business combination against the targets the entity set at the time the business combination occurred (see paragraphs BC18–BC21).**
- **preparers of financial statements are concerned about the cost of disclosing that information.**

In particular, preparers said the information would be so commercially sensitive that its disclosure in financial statements should not be required and disclosing this information could expose an entity to increased litigation risk (see paragraph BC22).

Having considered this feedback, the IASB is proposing changes to the disclosure requirements in IFRS 3 that, in its view, appropriately balance the benefits and costs of requiring an entity to disclose this information. It therefore expects that the proposed disclosure requirements would provide users with more useful information about the performance of a business combination at a reasonable cost.

In particular, the IASB is proposing to require an entity to disclose information about the entity's acquisition-date key objectives and related targets for a business combination and whether these key objectives and related targets are being met (information about the performance of a business combination). The IASB has responded to preparers' concerns about disclosing that information by proposing:

- **to require this information for only a subset of an entity's business combinations—strategic business combinations (see question 2); and**
- **to exempt entities from disclosing some items of this information in specific circumstances (see question 3).**

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

We support limiting some of the performance-related information, such as the acquisition-date key objectives and the related targets, to only a subset of material business combinations (see our response to Question 2). We also agree with the principle behind the proposed exemption (see our response to Question 3). However, we have several concerns with the disclosures as currently proposed in the ED which we outline below.

Commercial sensitivity

We have heard mixed views about disclosing information relating to the performance of a business combination such as the disclosures about the expected synergies, the acquisition-date key objectives and the related targets. Members who are in favour of disclosure argued that listed entities have responsibility for accountability to investors, but also agree that there are other more efficient mechanisms of communicating the information to the market on a timely basis. Those who are concerned about disclosing detailed performance-related information are convinced that the information is commercially sensitive, and the disclosures could have a counter-productive effect on achieving its performance targets. We have also been advised that there is litigation risk with the disclosure of forward-looking information from both preparers and auditors' perspectives.

Forward-looking information

We understand that the IASB does not consider information about acquisition-date key objectives, related targets, and expected synergies as forward-looking in the context of the Conceptual Framework. This is because the information is based on assumptions made at the time of the business combination (paragraph BC139). However, the IASB also acknowledges that other stakeholders may see this information as forward-looking. This could lead to additional litigation risk for an entity disclosing it (paragraph BC142).

We disagree with the analogy used in paragraphs BC82-85 that the forward-looking information in the proposed disclosures for business combinations is akin to those for expected credit losses in IFRS 9 *Financial Instruments* and disclosure of assumptions used in impairment tests required by IAS 36 *Impairment of Assets*. In these instances, there is an established credit profile or standing control over these assets. However, the proposed disclosures for business combinations are more extensive, complex and subjective; for example, the quantitative information about the synergies that are expected to arise from a business combination.

Auditability

We note the IASB's expectation of auditors to determine whether there is adequate explanation and appropriate evidence supporting the information disclosed (paragraph BC145(b)) may be problematic.

The ED proposes that the entity discloses only the acquisition-date key objectives and related targets reviewed by the acquirer's key management personnel. However, auditors can only check that the disclosed information matches what was reviewed by management. They cannot provide any further assurance over this information such as the achievability of these objectives and targets.

We have heard from auditors who have expressed significant concerns about the auditability of performance-related information on synergies on the basis it is forward-looking and subjective. Even if the disclosures are potentially auditable, it would be a complex and costly process.

We are also concerned that including disclosures on key objectives, targets, and expected synergies in the audited financial statements will create an expectation gap. Investors might incorrectly believe that the auditor has assured the achievability of these objectives and targets.

For this reason, we are not convinced that the financial statements are the appropriate place for some of the proposed disclosures. For example, synergy-related disclosures are typically found in management commentaries, or in Australia – the Operating and Financial Review (OFR), which are outside the audited financial statements. Auditors only need to review this information for consistency with the financial statements under ISA 720 *The Auditor's Responsibility Relating to Other Information*, so it is not subject to the same audit procedures. Currently, any audit of quantitative synergy disclosures would be done as a separate engagement from the financial statement audit. This is usually for capital market transactions and incurs significant additional costs for the entity.

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

To minimise the expectation gap, we suggest the IASB clarifies the purpose of these additional disclosures in the financial statements. Specifically, it could be stated that this information relates to assumptions made for a historic transaction and does not reflect management's expectations about future performance as of the reporting date or when the financial statements are issued. Information about management’s acquisition-date key objectives, related targets, and expected synergies is fixed at the date of acquisition (paragraph BC139). This clarification could be included as an explicit statement in the notes to the financial statements where entities disclose key objectives and targets. Alternatively, the IASB could consider including a requirement similar to paragraph 122 of IFRS 18 *Presentation and Disclosure in Financial Statements*.

Question 2—Disclosures: Strategic business combinations (proposed paragraph B67C of IFRS 3)

The IASB is proposing to require an entity to disclose information about the performance of a business combination (that is, information about the entity’s acquisition-date key objectives and related targets for the business combination and whether these key objectives and related targets are being met) for only strategic business combinations—a subset of material business combinations. A strategic business combination would be one for which failure to meet any one of an entity’s acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy.

The IASB is proposing that entities identify a strategic business combination using a set of thresholds in IFRS 3—a business combination that met any one of these thresholds would be considered a strategic business combination (threshold approach) (see paragraphs BC56–BC73).

The IASB based its proposed thresholds on other requirements in IFRS Accounting Standards and the thresholds regulators use to identify particularly important transactions for which an entity is required to take additional steps such as providing more information or holding a shareholder vote. The proposed thresholds are both quantitative (see paragraphs BC63–BC67) and qualitative (see paragraphs BC68–BC70).

(a) Do you agree with the proposal to use a threshold approach? Why or why not? If you disagree with the proposal, what approach would you suggest and why?

We support limiting some of the performance-related information, such as the acquisition-date key objectives and the related targets, to only a subset of material business combinations. Overall, we support the threshold approach as the most objective way to determine what qualifies as a strategic business combination. Although we do acknowledge a cohort of our members are concerned that this approach is too prescriptive and not in line with principles-based standards, we believe it is essential for ensuring consistency. The threshold approach, which includes both qualitative and quantitative criteria, offers a balanced and comprehensive method for evaluating strategic business combinations. This approach ensures that the assessment is not overly prescriptive, providing sufficient flexibility to capture a wide range of relevant strategic transactions. It helps focus on providing relevant information and reduces the burden of excessive disclosures, limiting them to a subset of material business combinations only.

(b) If you agree with the proposal to use a threshold approach, do you agree with the proposed thresholds? Why or why not? If not, what thresholds would you suggest and why?

Although we agree with the threshold approach, we have some concerns about how these thresholds are determined.

Quantitative threshold

The IASB has acknowledged that the proposed 10% threshold is somewhat arbitrary (paragraph BC67). While it makes sense to use a percentage consistent with IFRS 8 *Operating Segments*, the goal is to limit disclosures to only business combinations where failing to meet any acquisition-date key objectives would seriously jeopardise the entity's overall business strategy (paragraph BC54). Therefore, we believe the threshold should be higher than 10% to avoid excessive disclosures.

We understand that the IASB has noted that quantitative thresholds for additional disclosure in local regulations usually range from 5% to 30% (paragraph BC67). We recommend the IASB increases the threshold in the context that is appropriate for a strategic business combination.

For example, in the UK, a transaction is considered major (Class 1) if it reaches a 25% threshold under any of the class tests in the UK Listing Rules[1]. Similarly, in the US, the SEC defines a significant acquisition if it exceeds 20% on any of the three tests: Investment Test, Asset Test, and Income Test[2].

Qualitative thresholds

We have observed that qualitative thresholds of a new 'major line of business' or 'geographical area of operations' in BC67C(c) are adapted from paragraph 5 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (paragraph BC69). However, the lack of clarity and guidance in IFRS 5 has led to different interpretations of what 'geographical' and 'major line of business' mean. This could result in inconsistency and hinder comparability.

Therefore, we recommend the IASB provides more guidance or criteria on what qualifies as a 'major line of business' and when expanding into a new 'geographical area' should be seen as a 'strategic' decision.

[1] UK Listing Rule
[2] US SEC Financial Reporting Manual

<u>Question 3—Disclosures: Exemption from disclosing information (proposed paragraphs B67D–B67G of IFRS 3)</u>

The IASB is proposing to exempt an entity from disclosing some of the information that would be required applying the proposals in this Exposure Draft in specific circumstances. The exemption is designed to respond to preparers' concerns about commercial sensitivity and litigation risk but is also designed to be enforceable and auditable so that it is applied only in the appropriate circumstances (see paragraphs BC74–BC107).

The IASB proposes that, as a principle, an entity be exempt from disclosing some information if doing so can be expected to prejudice seriously the achievement of any of the entity's acquisition-date key objectives for the business combination (see paragraphs BC79–BC89). The IASB has also proposed application guidance (see paragraphs BC90–BC107) to help entities, auditors and regulators identify the circumstances in which an entity can apply the exemption.

(a) Do you think the proposed exemption can be applied in the appropriate circumstances? If not, please explain why not and suggest how the IASB could amend the proposed principle or application guidance to better address these concerns.

We agree with the principle behind the proposed exemption. However, we do not believe that the proposed exemption goes far enough to fully alleviate the concerns around the disclosure of commercially sensitive information raised by us and many other submitters in response to the DP.

Entities that apply the exemption are required to explain why the exemption has been applied and are still required to report on the actual performance for the year. Such information could be considered commercially sensitive, so it is unclear how such disclosures could be provided without prejudicing the outcome of a particular acquisition.

We acknowledge that the IASB considers disclosing information in aggregate, such as information about the total amount of expected synergies, would overcome the risk of prejudicing the key objectives of a business combination (paragraph BC98). However, aggregating information may not be a solution in all situations, such as where there is a single acquisition.

In addition, the requirement to reassess the exemption at the end of each reporting period whether the item of information is still eligible for the exemption poses an additional burden for entities that apply the proposed exemption.

(b) Do you think the proposed application guidance would help restrict the application of the exemption to only the appropriate circumstances? If not, please explain what application guidance you would suggest to achieve that aim.

Overall, we believe the proposed application guidance is sufficient to limit application of the exemption to only the appropriate circumstances. However, as mentioned in our response to Question 3(a), the exemption may not fully address the risk of disclosing commercially sensitive information in all situations.

Question 4—Disclosures: Identifying information to be disclosed (proposed paragraphs B67A–B67B of IFRS 3)

The IASB is proposing to require an entity to disclose information about the performance of the entity's strategic business combinations (that is, information about its acquisition-date key objectives and related targets for a strategic business combination and whether these key objectives and related targets are being met) that is reviewed by its key management personnel (see paragraphs BC110–BC114).

The IASB's proposals would require an entity to disclose this information for as long as the entity's key management personnel review the performance of the business combination (see paragraphs BC115–BC120).

The IASB is also proposing (see paragraphs BC121–BC130) that if an entity's key management personnel:

- **do not start reviewing, and do not plan to review, whether an acquisition-date key objective and the related targets for a business combination are met, the entity would be required to disclose that fact and the reasons for not doing so;**
- **stop reviewing whether an acquisition-date key objective and the related targets for a business combination are met before the end of the second annual reporting period after the year of acquisition, the entity would be required to disclose that fact and the reasons it stopped doing so; and**
- **have stopped reviewing whether an acquisition-date key objective and the related targets for a business combination are met but still receive information about the metric that was originally used to measure the achievement of that key objective and the related targets, the entity would be required to disclose information about the metric during the period up to the end of the second annual reporting period after the year of acquisition.**

(a) Do you agree that the information an entity should be required to disclose should be the information reviewed by the entity's key management personnel? Why or why not? If not, how do you suggest an entity be required to identify the information to be disclosed about the performance of a strategic business combination?

We agree that the information disclosed should be the same information reviewed by the entity's key management personnel for cost-effectiveness and efficiency reasons. However, because various entity key management personnel are likely to focus on different aspects of an acquisition, comparable disclosures between entities could be difficult to achieve.

(b) Do you agree that:

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

We agree that the disclosure should continue for as long as the entity's key management personnel reviews that information, so long as the information remains material to the users of financial statements.

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

We agree with the proposed two-year period for monitoring and reviewing the performance of a new acquisition. This timeframe generally aligns with standard business practices, where management typically evaluates the success and integration of acquisitions over the first two years.

We also agree that it is essential to explain to the users of financial statements why the entity's key management personnel have not started or have ceased reviewing the achievement of a key objective and the related targets for an acquisition before the end of the second annual reporting period after the year of acquisition.

Question 5—Disclosures: Other proposals

The IASB is proposing other amendments to the disclosure requirements in IFRS 3. Do you agree with the proposals? Why or why not? These proposals relate to:

New disclosure objectives (proposed paragraph 62A of IFRS 3)

The IASB proposes to add new disclosure objectives in proposed paragraph 62A of IFRS 3 (see paragraphs BC23–BC28).

We support the objective to disclose information that enables users of financial statements to evaluate the benefits expected from a business combination.

Requirements to disclose quantitative information about expected synergies in the year of acquisition (proposed paragraph B64(ea) of IFRS 3)

The IASB proposes:

- **to require an entity to describe expected synergies by category (for example, revenue synergies, cost synergies and each other type of synergy);**
- **to require an entity to disclose for each category of synergies:**
  - **the estimated amounts or range of amounts of the expected synergies;**
  - **the estimated costs or range of costs to achieve these synergies; and**
  - **the time from which the benefits expected from the synergies are expected to start and how long they will last; and**
- **to exempt an entity from disclosing that information in specific circumstances.**

See paragraphs BC148–BC163.

In addition to our concerns around commercial sensitivity and the potential audit expectation gap as discussed in our response to Question 1, we do not support the requirements to disclose quantitative information about expected synergies for the following reasons:

a) Forward-looking information relies on extensive assumptions that can present auditing challenges.
b) Even if the information is auditable, the costs would likely exceed any benefits.

c) Users of financial reports may discount the information's reliability, value and importance because of the complex nature and different scenario analyses.

d) When an acquired business is integrated with the existing business, measuring synergies of the acquired business would be challenging. We understand, in such circumstances, an entity is expected to disclose the performance of the integrated business. However, such disclosures are unlikely to meet the intended objective from a users' perspective.

e) The requirement to disclose the time from which the benefits from the synergies are expected to start, how long they are expected to last, and whether they are expected to be finite or indefinite, would be practically challenging.

Feedback we have received indicates that these proposed disclosures exceed what should be achieved through financial reporting. As stated in our response to Question 1, we are not convinced that the financial statements are an appropriate place for the disclosure of such information.

The strategic rationale for a business combination (paragraph B64(d) of IFRS 3)

The IASB proposes to replace the requirement in paragraph B64(d) of IFRS 3 to disclose the primary reasons for a business combination with a requirement to disclose the strategic rationale for the business combination (see paragraphs BC164–BC165).

We agree with the proposed amendment.

Contribution of the acquired business (paragraph B64(q) of IFRS 3)

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

- **to specify that the amount of profit or loss referred to in that paragraph is the amount of operating profit or loss (operating profit or loss will be defined as part of the IASB's Primary Financial Statements project);**
- **to explain the purpose of the requirement but add no specific application guidance; and**
- **to specify that the basis for preparing this information is an accounting policy.**

We do not support specifying that the basis for preparing information about the contribution of the acquired business is an accounting policy. We do not consider disclosing information that helps users of financial statements forecast the future performance of the combined entity as described in paragraph B64(q)(ii) as an accounting policy.

Accounting policies are traditionally defined as the specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements. Forecasting future performance, on the other hand, involves providing forward-looking information and projections about the combined entity's future financial health and operational outcomes. This type of information is inherently speculative and is based on assumptions about future conditions and events, rather than on established accounting standards and historical data.

Classifying this type of disclosure as an accounting policy could blur the lines between objective financial reporting and subjective forecasting. It might also lead to confusion among users of financial statements, who rely on accounting policies to understand the methods and principles applied in the preparation of the financial statements, not to predict future performance.

Therefore, it is more appropriate to treat forward-looking disclosures, including disclosures on how the forecast future performance was prepared, separately from accounting policies to maintain clarity and precision in financial reporting. This information could be included together with the disclosures on the forecast future performance of the combined entity.

Classes of assets acquired and liabilities assumed (paragraph B64(i) of IFRS 3)

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

We agree with the proposed amendment.

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

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

No comment.

Question 6—Changes to the impairment test (paragraphs 80–81, 83, 85 and 134(a) of IAS 36)

During the PIR of IFRS 3, the IASB heard concerns that the impairment test of cash-generating units containing goodwill results in impairment losses sometimes being recognised too late.

Two of the reasons the IASB identified (see paragraphs BC188–BC189) for these concerns were:

- **shielding; and**
- **management over-optimism.**

The IASB is proposing amendments to IAS 36 that could mitigate these reasons (see paragraphs BC192–BC193).

Proposals to reduce shielding

The IASB considered developing a different impairment test that would be significantly more effective at a reasonable cost but concluded that doing so would not be feasible (see paragraphs BC190–BC191).

Instead, the IASB is proposing changes to the impairment test (see paragraphs 80–81, 83 and 85 of IAS 36) to reduce shielding by clarifying how to allocate goodwill to cash-generating units (see paragraphs BC194–BC201).

Proposal to reduce management over-optimism

The IASB's view is that management over-optimism is, in part, better dealt with by enforcers and auditors than by amending IAS 36. Nonetheless, the IASB is proposing to amend IAS 36 to require an entity to disclose in which reportable segment a cash-generating unit or group of cash-generating units containing goodwill is included (see paragraph 134(a) of IAS 36). The

IASB expects this information to provide users with better information about the assumptions used in the impairment test and therefore allow users to better assess whether an entity's assumptions are over-optimistic (see paragraph BC202).

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

We do not believe the proposed amendments adequately address the main issue that the IASB investigated in the DP i.e., goodwill shielding "too late, too little recognition of impairment". While we are not opposed to the proposed changes to the impairment test to clarify how to allocate goodwill to cash-generating units, the feedback we received expressed concerns that this would likely have minimal impact on addressing the shielding problem.

We appreciate the challenges faced by the IASB in its efforts to improve the subsequent accounting for acquired goodwill. Globally, corporate regulators and the audit profession repeatedly identify shortcomings in the accounting for impairment (including impairment of goodwill) within financial statements, signalling a need for improvement. Research by CA ANZ and the University of Melbourne; *How long is the piece of string?* indicates that there is potentially a systemic delay occurring in the recognition of impairment charges, at least in smaller listed companies worldwide.

We continue to believe there is a need for a fundamental review of IAS 36 to establish the reasons for the concerns raised by stakeholders with the current impairment model and investigate the impacts of the current complexity of the model, particularly in relation to its application by smaller listed companies.

While we note the IASB's aversion to reintroducing amortisation, there are still many stakeholders in favour of amortisation of goodwill (including one IASB member) as a practical solution to address some of the shortcomings associated with the current impairment approach. We continue to recommend the exploration of a hybrid approach whereby an entity would carry out an annual impairment test of goodwill in the first few years of acquisition, followed by amortisation of goodwill in later years.

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

We agree with the proposal to disclose in which reportable segment a cash-generating unit or group of cash-generating units containing goodwill is included. To which cash-generating unit or group of cash-generating units goodwill is allocated is useful information for the users of financial statements.

We also agree that auditors have a role to play in assessing what might be management over-optimism. However, the proposed amendments do not appear to have considered the boundaries of an audit and the respective responsibilities of management and the auditor.

Question 7—Changes to the impairment test: Value in use (paragraphs 33, 44–51, 55, 130(g), 134(d)(v) and A20 of IAS 36)

The IASB is proposing to amend how an entity calculates an asset's value in use. In particular, the IASB proposes:

- **to remove a constraint on cash flows used to calculate value in use. An entity would no longer be prohibited from including cash flows arising from a future restructuring to which**

the entity is not yet committed or cash flows arising from improving or enhancing an asset's performance (see paragraphs BC204–BC214).

- **to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use. Instead, an entity would be required to use internally consistent assumptions for cash flows and discount rates (see paragraphs BC215–BC222).**

(a) Do you agree with the proposal to remove the constraint on including cash flows arising from a future restructuring to which the entity is not yet committed or from improving or enhancing an asset's performance? Why or why not?

We are concerned about the changes to the value-in-use calculation as proposed as they could have unintended consequences. The removal of the restriction on uncommitted future cash flows from future asset enhancements and restructurings could result in very different interpretations by preparers. There are concerns around enforceability and auditability when establishing the new boundaries, and increased compliance costs without corresponding benefits. However, while we can see that the proposal may have some merits but would urge the IASB to conduct some field testing before amending this requirement. In addition, if the IASB proceeded with the proposed amendment, we recommend adding guidance on determining what is an uncommitted restructuring and enhancement of assets.

(b) Do you agree with the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use? Why or why not?

We support the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates for the value-in-use calculation. Feedback we have received confirms that the use of post-tax cash flows and post-tax discount rates are common practice.

Question 8—Proposed amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

The IASB proposes to amend the forthcoming IFRS 19 *Subsidiaries without Public Accountability: Disclosures* (Subsidiaries Standard) to require eligible subsidiaries applying the Subsidiaries Standard to disclose:

- **information about the strategic rationale for a business combination (proposed paragraph 36(ca) of the Subsidiaries Standard);**
- **quantitative information about expected synergies, subject to an exemption in specific circumstances (proposed paragraphs 36(da) and 36A of the Subsidiaries Standard);**
- **information about the contribution of the acquired business (proposed paragraph 36(j) of the Subsidiaries Standard); and**
- **information about whether the discount rate used in calculating value in use is pre-tax or post-tax (paragraph 193 of the Subsidiaries Standard).**

See paragraphs BC252–BC256

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

For the same reasons as discussed in our responses to Questions 1-5, we do not agree with the proposed disclosures in IFRS 19 *Subsidiaries without Public Accountability: Disclosures*. We recognise that a parent entity would need to gather certain information from its subsidiaries, and therefore it is expected that subsidiaries would be able to provide this information. However, to mandate extensive and complex disclosures for subsidiaries without public accountability, in our view, does not strike the right balance between cost and benefit.

Question 9—Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 140O of IAS 36 and proposed paragraph B2 of the Subsidiaries Standard)

The IASB is proposing to require an entity to apply the amendments to IFRS 3, IAS 36 and the Subsidiaries Standard prospectively from the effective date without restating comparative information. The IASB is proposing no specific relief for first-time adopters. See paragraphs BC257–BC263.

Do you agree with the proposals? Why or why not? If you disagree with the proposals, please explain what you would suggest instead and why.

With reference to our above preceding comments, we would support prospective application without restating comparative information. We agree that the cost of applying the amendments retrospectively would outweigh the benefits as some of the proposed requirements may be difficult to implement retrospectively without the use of hindsight.

We note that the ED has not proposed an effective date. We urge the IASB to provide sufficient lead time / transition period because entities will need adequate time to update their internal systems. The effective date will also need to be considerate of entities being focused on implementing IFRS 18 *Presentation and Disclosure in Financial Statements* potentially concurrently.