

15 July 2024

Andreas Barckow
Chair
International Accounting Standards Board
Columbus Building
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Canary Wharf
London, E14 4HD
United Kingdom

Dear Dr Barckow

Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment*

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment*.

We support the IASB's objective of improving the information an entity provides about business combinations. We also agree that more detailed disclosure is generally appropriate for strategic business combinations, identified applying a threshold approach.

From an auditor's perspective, our key concern is to ensure that the requirements can be implemented consistently and that the information included in financial statements is reliable and verifiable. We have noted several areas where the proposed amendments fall short in that respect.

In particular, consistent with our response to the DP, we disagree with the proposal to require entities to disclose quantitative information about expected synergies because we do not believe it is capable of practical implementation, including from an audit perspective. This is mainly due to the fact that the measurement of expected synergies would necessarily rely on highly judgemental estimates, which undermines the relevance and reliability of the information that would be produced. Accordingly, we urge the IASB to reconsider whether the disclosure of the expected synergies is appropriate information to be included in financial statements (or would more appropriately belong, for example, in a management commentary). We make the same recommendation in respect of the disclosure of acquisition-date key objectives and the related targets for strategic business combinations.

As explained in our detailed response, we do not believe that the proposed amendments to the allocation of goodwill would achieve the objective of reducing shielding. We continue to believe that the mixed model – amortisation supported by an impairment test when there is an indicator of impairment – is preferable.

We note that the amendments continue to presume that management monitors goodwill (or the business associated with the goodwill) for a purpose other than to comply with an accounting requirements and associated disclosures. We continue to question whether this is indeed the case. In the absence of evidence to the contrary, we suggest the IASB should consider simply requiring that goodwill be allocated to a CGU or group of CGUs that is not larger than an operating segment level before aggregation (i.e. deleting the requirement in IAS 36:80(a), which in most circumstances does not reflect management practices). Under this approach, entities would be permitted (but not required) to allocate goodwill at a

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lower level if appropriate information is available. We believe that allocation of goodwill at the operating segment level, before aggregation, is appropriate since it is more likely that the financial information available at such a level is subject to more rigorous oversight and therefore is more likely to provide a reasonable basis for the measurement of the recoverable amount.

We do not support the proposal that an entity should include uncommitted future restructurings (or asset enhancements) in the calculation of value in use if they are reflected in the most recent financial budgets/forecasts approved by management. We do not believe that the explanation given in proposed IAS 36:BC213 (i.e. that such a change would result in a measurement of value in use that is more consistent with how fair value is determined) is sufficient to justify this proposed amendment. The mere fact that the uncommitted restructuring is reflected in an approved budget/forecast does not provide sufficient objective evidence that the restructuring will indeed take place.

Finally, we strongly believe that an impairment test should be performed at the date of transition. If the current proposed amendments are expected to be effective at addressing the concerns raised about IAS 36, it would be reasonable to assume that the application of amendments may give rise to goodwill impairment losses. Delaying the recognition of such impairment losses until the entity performs its annual impairment test will diminish the relevance of the financial information communicated in the meantime (e.g. in interim financial reports). Further, in the absence of the baseline provided by an impairment test performed on transition, it may be difficult for the entity to assess whether there is an indication that goodwill may be impaired in advance of the annual impairment test.

If you have any questions concerning our response, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS and Corporate Reporting Leader

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.
- (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?

We support the IASB's objective of improving the information an entity provides about business combinations. We also agree that more detailed disclosure is generally appropriate for strategic business combinations. We note that many other capital expenditures projects are strategically important and significant and overall a balance needs to be considered to achieve a better explanation of how capital is invested. This is something that the Board may wish to keep in mind as part of its next agenda consultation.

From an auditor's perspective, our key concern is to ensure that the requirements can be implemented consistently and that the information included in financial statements is reliable and verifiable.

We urge the IASB to reconsider whether the disclosures of the acquisition-date key objectives and the related targets for strategic business combinations and of expected synergies are appropriate information

to be included in financial statements. We note that paragraph 3.6 of the Conceptual Framework (CF) explains that “[f]inancial statements do not typically provide other types of forward-looking information, for example, explanatory material about management’s expectations and strategies for the reporting entity”. Accordingly, we are not convinced by the statement in proposed IFRS 3:BC139 that the information about acquisition-date key objectives, related targets and expected synergies is not forward-looking in the context of the CF because it relates to assumptions made at the time of the business combination. We believe that the same could be said about the information noted in CF:3.6 as not belonging in the financial statements.

We also note that IASB’s analysis in proposed IFRS 3:BC144 and BC145 explaining why the information is auditable. Whilst it is reasonable to expect that auditors will be able to verify that the information disclosed is indeed the information received and reviewed by management, it may be challenging or impossible to provide reasonable assurance that the information is reliable, for example that the objectives, targets or expected synergies are reasonable, or indeed achievable. Including such information in audited financial statements will raise the expectations from users of the financial statements that auditors have provided assurance on the expected outcomes. This is a further reason why we believe that the information is more suited to be provided outside audited financial statements, for example in a management commentary.

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?
- (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?

(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 agree with the proposal to use defined thresholds to identify strategic business combinations as this promotes a consistent application of the requirements.

However, this approach is not necessarily compatible with the description proposed in IFRS 3:BC54 which indicates that a strategic business combination is a business combination for which failure to meet any of

the key objectives would put the entity at serious risk of failing to achieve its overall business strategy. We do not believe it would be possible to define a list of thresholds that would capture in all circumstances such business combinations as described in proposed IFRS 3:BC:54 and only such business combinations. To avoid confusion in application of the threshold approach, we suggest that the description proposed in IFRS 3:BC:54 should not be included in the final standard (including its basis for conclusions).

Similarly, the use of the term “strategic” to describe the business combinations for which additional information should be provided may convey the impression that such business combinations are those that management identifies as strategic. Again, this is not compatible with the closed-list threshold approach proposed in the ED. We suggest that the IASB may want to consider whether another term would more accurately describe the relevant subset of business combinations or alternatively, not using a specific term to describe those business combinations and simply requiring additional disclosures for business combinations that meet the prescribed thresholds.

(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?

We strongly encourage the IASB to conduct field testing (using historical data that covers a sufficiently long period) to ensure that the application of the thresholds results in an appropriate identification of the business combinations for which users seek additional information, without being burdensome to preparers. Among other things, such testing may help to validate whether it is appropriate to use 10% as a quantitative threshold, as compared to the higher thresholds (20-30%) used by many regulators.

Whilst proposed quantitative thresholds can be applied consistently, we believe it would be appropriate to provide additional guidance to ensure that this is also the case for the qualitative threshold. We acknowledge that this threshold is already used in IFRS 5, however in our experience entities find the application of this requirement challenging. We expect that the application difficulties will be increased when applied to a new business. For example, in practice, to assess whether a disposed component meets the separate presentation threshold in IFRS 5, management may consider the extent of the information provided in prior periods in respect of that component inside and outside of the financial statements. Such information may not be available in respect of a newly acquired business.

We suggest that the IASB considers also the following potential application issues and provide relevant guidance:

- if the acquiree did not apply IFRS Accounting Standards prior to the acquisition, it would likely be burdensome to the acquirer to determine the acquiree’s revenue and operating profit or loss applying IFRS Accounting Standards prior to the acquisition. The IASB should clarify whether other information may be used, such as historical national GAAP information of the acquiree
- difference in functional or presentation currency of acquirer and acquiree
- application of an operating profit or loss threshold by an acquirer that breaks even or a revenue threshold by an acquirer that has not yet started commercial operations
- non-coterminous year ends
- pre-acquisition transactions between the acquirer and acquiree or interest in the acquiree previously held by the acquirer
- whether, and if so when, multiple arrangements should be considered as a single business combination.

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

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.
- (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.

We support the IASB’s decision not to specify that the exemption would apply only in extremely rare situations. We believe this is appropriate since the situations described in IFRS 3:BC81 to illustrate when the exemption may apply are likely to arise more often than rarely.

However, we are concerned that, as currently drafted, the exemption may not be applied consistently. We note that proposed IFRS 3:B67D highlights mainly situations when the exemption does *not* apply. To indicate more clearly the situations in which the exemption would apply, we suggest that the circumstances presented in proposed IFRS 3:BC81 to illustrate this should be added to the main body of the standard.

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?
- (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?
 - (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?

- (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 expect that the subset of information for which additional information would be required would be reviewed by the entity's governance body (ies), e.g. the board of directors.

We note that the definition of key management personnel in IAS 24 is broader as it is not limited to an entity's directors (executive or otherwise). We also note that the use of "governance body" to identify an appropriately high level instance within the entity is already used in IFRS Sustainability Disclosure Standards. We suggest it should also be used in the context of proposed IFRS 3:B67A–B67B. Alternatively, the standard could refer to "those charged with governance", which is a well understood term. If the IASB wishes to retain the term key management personnel, we believe it is important to add clarification regarding the intended seniority of the relevant personnel "for example, the entity's board of directors or chief executive officer". We note that this clarification is used in IFRS 7:34.

(b) (i) Do you agree 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?

Subject to our comment above, we agree with the proposal that 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.

(b) (ii) Do you agree that 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 that if 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, the entity should disclose this fact and the reasons for this.

We note that proposed IFRS 3:B67B(b) also includes specific disclosure requirements if the key management personnel stop reviewing the information but continue to receive it. We suggest that the IASB reconsiders whether this information is relevant. Key management personnel would generally be able to "receive" any information on-demand through an ERP or another similar system. Hence it seems artificial to try to identify whether key management personnel has received the information, but not reviewed it.

(c) Other observation: definition of the term "target"

Appendix A defines a target in a prescriptive way. It indicates that a target shall be specific enough for it to be possible to verify whether the related key objective is being met and measured using a metric that can be denominated in currency units or another unit of measurement. It appears that this "definition" is in fact meant to indicate the characteristics of targets that are subject to the proposed disclosure requirements. If our understanding is correct, we suggest that this should be specified more clearly and included as part of the disclosure requirements.

Question 5—Disclosures: Other proposals

The IASB is proposing other amendments to the disclosure requirements in IFRS 3. 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).

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.

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).

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.

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).

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).

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

(a) New disclosure objectives (proposed IFRS 3:62A)

We agree with the proposed disclosure objectives.

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

Consistent with our response to the DP, we disagree with the proposal to require entities to disclose quantitative information about expected synergies because we do not believe it is capable of practical implementation. This is mainly due to the fact that the measurement of expected synergies would necessarily rely on highly judgemental estimates, for which little corroborative information would exist, which undermines the relevance and reliability of the information that would be produced.

Indeed, quantification of synergies expected from a business combination involves estimation of forward-looking information not supported by historical evidence. In this respect, it is different from other estimates an entity makes about the future in its financial statements, for example when estimating value in use or measuring expected credit losses in IFRS 9. In these cases, estimates about the future are partially derived from past experience associated with these estimates. In the case of synergies expected from a business combination, there is no past experience that can corroborate the assumptions the entity makes about the future as there is no track record of the combined performance of the businesses entering into a business combination. Therefore, these factors increase the subjectivity, judgement and costs of preparing this information. It also raises concerns about the auditors' ability to provide reasonable assurance on this information, consistent with the level of assurance generally provided on audited financial statements.

(c) The strategic rationale for a business combination (proposed IFRS 3:B64(d))

We agree with the proposal to require an entity to disclose the strategic rationale for the business combination.

(d) Contribution of the acquired business (proposed IFRS 3:B64(q))

We agree with the proposal to specify that the profit or loss figure referred to in IAS:B64(q) is operating profit or loss, as defined in IFRS 18.

We also agree that the IASB should not provide guidance on how to prepare combined entity information but should instead require entities to disclose the basis of preparation of this information to aid investors' analysis.

(e) Classes of assets acquired and liabilities assumed (proposed IFRS 3:B64(i))

We agree with the proposal to remove the term 'major' in IFRS 3:B64(i). We do not object to the amendments proposed to the illustrative example.

(f) Deleting disclosure requirements (proposed IFRS 3:B64(h), B67(d)(iii) and B67(e))

We agree with the proposed deletions.

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?

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

(a) Proposals to reduce shielding

We do not agree with the proposed amendments to the allocation of goodwill and we do not believe that such amendments would achieve the objective of reducing shielding. Consistent with our response to the DP, we continue to believe that the mixed model – amortisation supported by an impairment test when there is an indicator of impairment – is preferable.

Although different words are used, the proposed amendments continue to presume that management monitors goodwill (or the business associated with the goodwill) for a purpose other than to comply with an accounting requirements and associated disclosures. We continue to question whether this is indeed the case. If it is the case, it would be helpful to explain the factors that provide evidence for this practice. Such guidance would help promote consistency in application.

However, in the absence of additional guidance, the IASB should consider simply requiring that goodwill be allocated to a CGU or group of CGUs that is not larger than an operating segment level before aggregation (i.e. deleting the requirement in IAS 36:80(a), which in most circumstances is not applicable). Under this approach, entities would be permitted (but not required) to allocate goodwill at a lower level if appropriate information is available. We believe that allocation of goodwill at the operating segment level, before aggregation, is appropriate since it is more likely that the financial information available at such a

level is subject to more rigorous oversight and therefore is more likely to provide a reasonable basis for the measurement of the recoverable amount.

Our other key concerns about the proposed amendments are as follows:

- the proposed revised wording in IAS 36:80(a) refers to “lowest level within the entity at which the business associated with the goodwill is monitored for internal management purposes”. If the IASB retains this wording, it will be necessary to clarify whether the business “associated” with the goodwill can include both existing and the acquired business(es). We presume that this is the case
- we are also concerned that this proposed wording may create confusion on whether a CGU is necessarily a business. This is because the first sentence in IAS 36:80 continues to refer to allocation of goodwill to CGU or group of CGUs but item (a) refers to that CGU or of group of CGUs being the lowest level at which the business associated with the goodwill is monitored. We believe that this should be clarified
- proposed IAS 36:80A appears to mandate entities to follow a strict step-by-step approach to achieve the allocation principle in IAS 36:80. We disagree that management should be required to follow such a strict approach because we do not believe that relevant information will necessarily be obtained at each of the steps. For example, it may not be necessary to identify all CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination (as proposed in IAS 36:80A(a)) if it is readily apparent that financial information is not available at that level. We believe that this paragraph would be more useful as guidance that management *may* follow to meet the requirements in IAS 36. This would avoid the burden to entities of putting in place this approach (and the required internal controls) when it is not necessary to comply with the standard
- if proposed IAS 36:80A is retained, it would be necessary to clarify how to identify the lowest level for which there is financial information that “management regularly uses to monitor the business associated with the goodwill”. Similar wording is also used in proposed IAS 36:80(a) and IAS 36:83(b). While it is reasonable to expect that all businesses within the entity are monitored by some level of management, the information used may not be relevant for the goodwill impairment tests. For example, the information may not reflect the effect of purchase price allocations. We acknowledge the IASB conclusion in proposed IAS 36:BC196 that it would be difficult to provide additional guidance on allocation of goodwill to CGUs that could apply to all entities. However, we are concerned that the concepts presented in the ED are unclear. As indicated previously in this letter, without additional guidance, allocation of goodwill at a level below the operating segment will be arbitrary.

Instead of the proposed amendments, we believe that some of the concerns about shielding could be addressed by:

- improving the requirements related to changes in the allocation of goodwill, in particular reallocations that result from reorganisation of the entity’s internal structure. For example, the IASB may want to consider whether to specify that an entity should perform an impairment test before the reallocation of goodwill. This may be appropriate because internal reorganisations are sometimes undertaken to address anticipated decline in performance. It would also be helpful to clarify the factors to consider in applying the relative value approach required by IAS 36:87, require disclosure of the key assumptions used in performing the reallocation and clarify that this approach is based on the relative values at the date of the reallocation (e.g. the relative value at the date of the original allocation is not relevant for this purpose)

- enhancing disclosure in respect of key assumptions used to estimate the recoverable amount. For example, clarifying that the key assumptions that may need to be disclosed are not limited to the growth rate and discount rate, but may include other performance metrics. It may also be useful to illustrate the application of the sensitivity analysis in IAS 36:135 (e), and include in this illustration the disclosure of the impact of changes in key assumptions other than growth rate and discount rate. Whilst this will not reduce the risk of shielding, it would provide information that may be useful to evaluate the risk of that an impairment may occur.

(b) Proposal to reduce management over-optimism

We agree with the proposal to require entities to disclose in which reportable segment a CGU or group of CGUs goodwill is included.

However, we do not agree with the statement in proposed IAS 36:BC189(c) that overly optimistic estimates of cash flows are best addressed by auditors and regulators, instead of by changing IFRS Accounting Standards. The financial statements, including the required estimates, are the responsibility of management and those charged with governance. Our responsibility as auditors is to challenge these estimates, applying professional scepticism. Our suggestion above to enhance the disclosure of key estimates and their impact on the goodwill headroom represents an example of a change that could be made to IAS 36, which may alleviate concerns about the potential for management over-optimism. For these reasons, we do not believe that the statement in proposed IAS 36:B189(c) should be included in the finalised standard.

(c) Suggestion for additional guidance

We support the IASB's project *Climate-related and Other Uncertainties in the Financial Statements*. We believe standard-setting, including enhanced disclosures, on this topic may help to address some of the concerns related to impairment risk raised by users of financial statements.

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?
- (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?

(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 do not agree that an entity should include uncommitted future restructurings (or asset enhancements) in the calculation of value in use if they are reflected in the most recent financial budgets/forecasts approved by management. We do not believe that the explanation given in proposed IAS 36:BC213 (i.e. that such a change would result in a measurement of value in use that is more consistent with how fair value is determined) is sufficient to justify this proposed amendment.

Our key concerns about this proposal are as follows:

- reflecting uncommitted restructurings in value in use would be inconsistent with the requirements applicable to related costs that are in the scope of IAS 37, and may contribute to the expectation gap highlighted by the recent IFRIC agenda decision on climate-related commitments
- the mere fact that the uncommitted restructuring is reflected in an approved budget/forecast does not provide sufficient objective evidence that the restructuring will indeed take place. This is particularly the case because IAS 36 does not specify which level of management should have approved the budget/forecast used to determine value in use. As noted in our response to Question 6, financial information available at the level of an operating segment is likely to be subject to more rigorous oversight. Hence, the risk that the uncommitted restructuring will not be carried out would be reduced (but not eliminated) if the impairment test was performed at the operating segment level (before aggregation)
- reflecting uncommitted restructuring in value in use may constitute a key assumption that would need to be disclosed. Such disclosure may expose the entity to litigation, for example in jurisdictions in which restructuring plans affecting employees need to be discussed in advance with employee representatives.

(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 agree with the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use.

However, we disagree with the IASB decision not to provide further guidance on the application of post-tax measurement techniques. As noted in our response to the DP, we believe that the IASB should provide guidance to help entities identify deferred tax balances that would need to be included in the carrying amount of a CGU (or a group of CGUs) and those that should be excluded when the impairment test is performed on a post-tax basis. The IASB may also want to consider if a practical solution can be identified to address the mismatch between deferred tax balances, measured on an undiscounted basis, and the discounted cash flows used in performing the impairment test.

(c) Other observation

If the IASB finalises the proposed amendments related to the treatment of uncommitted restructurings and the option to use post-tax discount rates and cash flows, two of the key differences between value in use and fair value will be eliminated.

As part of its next agenda consultation, the IASB may wish to consider whether to undertake a project to investigate whether it continues to be relevant to measure recoverable amount based on the higher of fair value less costs to sell and value in use, or whether recoverable amount should be based solely on former.

Since IAS 36 was first issued in 1998, the use of fair value measurements in IFRS Accounting Standards has increased significantly. Preparers, users and auditors have gained significant experience on this measurement basis, and the issuance of IFRS 13 has helped to standardise practices.

Further, the statement in IAS 36:BCZ17 that an entity may have information about future cash flows that is superior to the information about the market is at odds with the principles used in more recent standards.

Finally, fair value is often a more objective measurement than value in use, more capable of consistent application, and therefore more compatible with auditing techniques.

For avoidance of doubt, we are not suggesting that value in use should be eliminated as part of the finalisation of this ED. We believe appropriate research and consultations should take place before proceeding with a more fundamental change like this..

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

The IASB proposes to amend the forthcoming IFRS X *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?

(a) Proposed amendments to the business combinations disclosures

We do not agree with the proposal that subsidiaries applying IFRS 19 should be required to provide the above information. Indeed, we do not believe that the benefits to users of these subsidiaries' financial statements justify the costs that would be required to comply with the disclosures required.

We also note that whilst the requirements to disclose information about the strategic rationale for a business combination and quantitative information about expected synergies are new, the disclosure of information about the contribution of the acquired business existed in IFRS 3 when IFRS 19 was developed. Accordingly, we expect that at that time, an assessment was made that a subsidiary without public accountability should not be required to disclose this information. Hence, we suggest that the IASB wait until the post implementation review of IFRS 19 to reconsider decisions made in its development. At that time, the IASB will also be able to benefit from the experience of preparers and users of full IFRS Accounting Standards to assess whether the new disclosure added by the proposed amendments should also be provided by subsidiaries that apply IFRS 19.

(b) Proposed amendments to the disclosures about the discount rate used for impairment purposes

We agree that the information should also be provided by subsidiaries that apply IFRS 19.

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.

We agree with the proposal to require entities to apply the amendments to IFRS 3 and IFRS 19 prospectively from the effective date without restating comparative information and not to provide any specific relief for first-time adopters.

However, we disagree with the proposal that the amendments to IAS 36 amendments should be applied prospectively. Instead, we believe that an entity should be required to perform an impairment test applying the amended requirements at the beginning of the annual reporting period in which it first applies the amendments, with the impact, if any, recognised directly in retained earnings (or another appropriate component of equity).

We note that the IASB concluded that the cost of performing such a test would outweigh the benefit because users would be able to tell whether an impairment loss results from an impairment event in the year, or simply from changes to how the impairment test is required to be performed, as explained in proposed IAS 36:BC261. We do not understand which information would be available to users to make this distinction.

We note that proposed IAS 36:BC261 also refers to the decision made not to require entities to perform an impairment test at the transition date when IAS 36 was modified to eliminate the impairment of goodwill in 2004. However, as noted in existing IAS 36:BC220, at the time, it was expected that adoption of the 2004 amendments would rarely give rise to an impairment loss. However, if the current proposed amendments are expected to be effective at addressing the concerns raised about IAS 36, it is plausible that the application of the proposed amendments will give rise to goodwill impairment losses not only in rare circumstances. We are concerned that unless a test is required to be performed at the date of transition, recognition of such impairment losses, if any, may be delayed until the entity performs its annual impairment test (or when an indication exists that goodwill may be impaired for a reason other than the application of the proposed amendments). Indeed, it does not appear that the initial application of the proposed amendments would represent an indication that goodwill may be impaired as per IAS 36:12-14. The resulting delays in recognition of the impairment loss will diminish the relevance of the financial information communicated in periods prior to the annual impairment test (e.g. in interim financial reports).

Further, performance of an impairment test at the date of transition is important to understand the impact of the amendments (e.g. the headroom resulting from the potentially revised allocation of goodwill). In the absence of the baseline provided by this impairment test on transition, it may be difficult for the entity to assess whether there is an indication that goodwill may be impaired in advance of the annual impairment test.